

KENTUCKY BAR ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

Board of Governors
Kentucky Bar Association
Frankfort, Kentucky 40601

Opinion

We have audited the accompanying financial statements of Kentucky Bar Association (a nonprofit organization), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Bar Association as of June 30, 2024 and 2023, and the changes in its net assets 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 audit 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 Kentucky Bar Association 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 Kentucky Bar Association's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 Kentucky Bar 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Bar 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.

Kelley Dalloway Smith Goodshy, PSC

Ashland, Kentucky
April 4, 2025

KENTUCKY BAR ASSOCIATION
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2024 AND 2023

ASSETS		
	2024	2023
Current assets:		
Cash	\$ 602,214	\$ 2,639,746
Investments	12,116,139	8,161,239
Accounts receivable	64,616	110,926
Due from affiliate, current	97,444	117,179
Interest receivable	29,105	17,509
Prepaid expenses	147,307	111,230
Total current assets	<u>13,056,825</u>	<u>11,157,829</u>
Due from affiliate, less current portion	365,733	406,369
Right-of-use leased assets, net	10,100	19,518
Property, building and equipment, net	2,537,069	2,634,210
Total long-term assets	<u>2,912,902</u>	<u>3,060,097</u>
Total assets	<u><u>\$15,969,727</u></u>	<u><u>\$ 14,217,926</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 258,503	\$ 302,228
Accrued expenses	374,447	510,987
Deferred revenue	293,266	297,191
Current portion of operating lease payable	6,309	9,418
Current maturities of bonds payable	279,169	256,692
Total current liabilities	<u>1,211,694</u>	<u>1,376,516</u>
Operating lease payable, less current maturities	3,791	10,100
Bonds payable, less current maturities	2,397,938	2,677,320
Total liabilities	<u>3,613,423</u>	<u>4,063,936</u>
Net assets:		
Without donor restrictions		
Board designated	1,545,133	1,765,080
Undesignated	10,811,171	8,388,910
	<u>12,356,304</u>	<u>10,153,990</u>
Total liabilities and net assets	<u><u>\$15,969,727</u></u>	<u><u>\$ 14,217,926</u></u>

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

KENTUCKY BAR ASSOCIATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
WITHOUT DONOR RESTRICTIONS:		
Revenues and Support:		
Membership and other dues	\$ 5,130,535	\$ 5,165,434
Investment income, net of investment expenses	568,929	187,141
Pro Hac Vice	560,454	511,430
Program application fees	367,131	353,560
Conventions and conferences	489,102	553,760
Net change in fair value of investments	906,582	509,364
Other revenue and support	564,613	662,787
Total revenue and support	8,587,346	7,943,476
Expenses:		
Program Activities -		
Sections	200,318	200,302
Board of Governors, Officers, and Committees	76,121	100,625
Disciplinary and Unauthorized Practices	1,497,842	1,578,837
Client Security	365,434	152,939
Disciplinary Clerk's Office	97,146	85,908
Publications	482,428	436,266
Lawyers Assistance Program	253,729	241,928
Continuing Legal Education	897,628	945,034
Bar Center	332,993	380,246
Annual Convention	349,552	348,781
Total program expenses	4,553,191	4,470,866
Supporting Activities -		
Administrative	444,086	423,897
Membership	671,864	643,207
Management and General	715,891	713,188
Total management and general expenses	1,831,841	1,780,292
Total expenses	6,385,032	6,251,158
CHANGE IN NET ASSETS	2,202,314	1,692,318
NET ASSETS AT BEGINNING OF YEAR	10,153,990	8,461,672
NET ASSETS AT END OF YEAR	\$ 12,356,304	\$ 10,153,990

The accompanying notes to financial statements
are an integral part of this statement.

KENTUCKY BAR ASSOCIATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024

Program Activities										Supporting Activities			
	Board of Governors Officers, and Committees	Disciplinary and Unauthorized Practices	Client Security	Disciplinary Clerk's Office	Publications	Lawyers Assistance Program	Continuing Legal Education	Bar Center	Annual Convention	Administrative	Membership	Management and General	Total Expenses
Sections													
\$ -	\$ -	\$ 1,052,083	\$ -	\$ 68,884	\$243,980	\$ 156,650	\$ 448,280	\$ -	\$ -	\$ 328,277	\$ 478,094	\$ -	\$ 2,776,248
-	-	78,976	-	5,254	19,116	11,418	33,256	-	-	25,137	35,603	-	208,760
-	-	103,771	-	6,906	24,499	15,716	43,652	-	-	32,660	48,075	-	275,279
-	-	145,545	-	3,384	30,744	26,865	65,949	-	-	25,883	61,756	776	360,902
-	-	1,870	-	117	466	233	793	-	-	485	1,030	17,500	22,494
-	-	-	-	-	-	-	-	-	-	-	-	41,844	41,844
5,830	-	15,076	3	3,730	1,153	18,117	5,405	709	5,420	740	1,299	90,379	147,861
1,626	3,925	8,055	1,299	650	982	2,941	3,815	1,433	2,324	1,499	3,265	10,570	42,384
220	13	2,641	-	1,539	2,855	2,796	9,962	-	3,969	3,829	1,758	6,627	36,209
-	122	6,925	482	2,606	55,539	297	752	-	348	-	-	5,898	72,969
-	-	-	-	-	-	-	-	43,109	-	-	-	-	43,109
-	-	42,535	-	578	4,319	329	48,158	-	4,100	1,142	38,086	139,721	278,968
112	59	1,282	-	239	88,436	460	999	-	1,062	54	389	645	93,737
12,219	41,898	21,718	454	2,020	600	10,117	27,443	-	26,694	10,624	702	20,777	175,266
8,330	2,511	5,982	-	-	-	2,171	77,934	-	22,114	4,830	1,194	8,876	133,942
-	-	-	-	-	-	-	-	-	-	-	-	139,481	139,481
-	-	-	-	-	-	-	-	191,946	-	-	-	-	191,946
-	-	-	-	2	1	-	5,519	220	8,037	-	-	20,650	34,429
26,742	25,939	9,634	925	584	380	5,429	27,965	-	85,400	8,567	364	16,478	208,407
-	-	434	-	-	-	-	-	-	-	-	-	83,285	83,719
-	-	-	-	-	-	-	-	65,378	-	-	-	-	65,378
-	-	-	-	653	2,888	190	95,265	-	111,816	-	-	-	210,812
91,986	-	-	-	-	-	-	-	-	-	-	-	50,000	141,986
-	-	-	-	-	-	-	-	24,198	-	-	-	60,976	85,174
-	-	-	-	-	-	-	-	-	36,800	-	-	-	36,800
-	-	-	362,189	-	-	-	-	-	-	-	-	-	362,189
-	-	-	-	-	-	-	-	6,000	-	-	-	-	6,000
-	-	-	-	-	2,207	-	-	-	-	-	-	-	2,207
-	-	-	-	-	2,805	-	-	-	3,856	-	-	-	6,661
53,253	947	1,185	82	-	1,000	-	1,324	-	3,085	192	-	504	61,572
-	707	130	-	-	458	-	1,157	-	34,527	167	249	904	38,299
\$ 200,318	\$ 76,121	\$ 1,497,842	\$365,434	\$ 97,146	\$482,428	\$ 253,729	\$ 897,628	\$ 332,993	\$ 349,552	\$ 444,086	\$ 671,864	\$ 715,891	\$ 6,385,032

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

KENTUCKY BAR ASSOCIATION
STATEMENTS OF FUNCTIONAL EXPENSES (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2023

Program Activities										Supporting Activities			
	Board of Governors Officers, and Committees	Disciplinary and Unauthorized Practices	Client Security	Disciplinary Clerk's Office	Publications	Lawyers Assistance Program	Continuing Legal Education	Bar Center	Annual Convention	Administrative	Membership	Management and General	Total Expenses
Sections													
\$ -	\$ -	\$ 1,080,707	\$ -	\$ 64,722	\$ 212,931	\$ 145,347	\$ 464,786	\$ -	\$ -	\$ 315,799	\$ 454,322	\$ -	\$ 2,738,614
-	-	80,828	-	4,879	16,254	10,547	34,495	-	-	23,473	33,997	-	204,473
-	-	105,996	-	6,480	21,427	14,573	44,733	-	-	31,799	45,781	-	270,789
-	-	159,506	-	2,778	34,496	28,624	67,604	-	-	30,397	82,223	894	406,522
-	-	1,857	-	112	425	223	768	-	-	460	1,001	15,500	20,346
-	-	263	-	-	-	-	-	-	-	-	-	13,747	14,010
46,588	100	54,125	54	170	270	14,324	4,086	1,981	5,955	150	1,265	77,041	206,109
2,614	1,841	11,471	427	2,801	638	3,234	4,570	5,839	3,835	2,715	2,108	10,142	52,235
319	28	1,027	-	-	731	1,552	5,939	-	1,450	2,243	406	9,107	22,802
20	342	6,314	636	2,739	46,878	261	6,714	-	360	9	28	5,168	69,469
-	-	-	-	-	-	-	-	46,818	-	-	-	-	46,818
-	-	36,387	-	664	2,350	84	45,700	-	6,834	3,117	19,938	148,588	263,662
197	3	1,708	1	170	88,708	51	2,629	-	1,290	50	380	1,687	96,874
18,678	58,071	20,257	1,055	377	3,768	14,139	24,275	-	16,686	9,530	379	11,300	178,515
5,278	6,520	8,412	838	-	985	3,534	94,997	-	50,146	2,033	173	3,119	176,035
-	-	-	-	-	-	510	-	-	-	-	904	-	1,414
-	-	-	-	-	-	-	-	-	-	-	-	139,709	139,709
-	-	-	-	-	-	-	-	190,878	-	-	92	-	190,970
-	-	-	-	-	-	-	8,513	240	9,632	-	-	34,915	53,300
34,121	30,863	8,269	934	16	98	3,886	26,423	-	76,776	1,983	124	16,649	200,142
-	-	769	7	-	-	-	-	-	-	-	86	114,745	115,607
-	-	-	-	-	-	-	-	104,210	-	-	-	-	104,210
337	-	-	-	-	-	-	107,533	-	96,936	-	-	513	205,319
36,150	-	-	-	-	-	500	-	-	-	-	-	50,000	86,650
-	-	-	-	-	-	-	62	24,280	-	-	-	59,343	83,685
8,000	-	-	-	-	-	-	-	-	71,050	-	-	-	79,050
-	-	(1)	148,929	-	-	-	-	-	-	-	-	-	148,928
-	-	-	-	-	-	-	-	6,000	-	-	-	-	6,000
-	-	-	-	-	2,572	-	-	-	-	-	-	-	2,572
-	-	-	-	-	2,235	-	-	-	2,527	-	-	-	4,762
47,320	1,145	942	58	-	1,500	213	1,186	-	4,921	139	-	326	57,750
680	1,712	-	-	-	-	326	21	-	383	-	-	695	3,817
\$ 200,302	\$ 100,625	\$ 1,578,837	\$ 152,939	\$ 85,908	\$ 436,266	\$ 241,928	\$ 945,034	\$ 380,246	\$ 348,781	\$ 423,897	\$ 643,207	\$ 713,188	\$ 6,251,158

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

KENTUCKY BAR ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$2,202,314	\$ 1,692,318
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	191,946	190,970
Amortization	12,262	12,262
Net (increase) decrease in fair value of investments	(906,582)	(509,364)
Realized (gains) losses on sales of investments	(203,853)	2,721
(Gain) loss on disposal of assets	72,056	-
(Increase) decrease in operating assets -		
Accounts receivable	46,310	(9,834)
Due from affiliate	60,371	40,184
Interest receivable	(11,596)	(3,612)
Prepaid expenses	(36,077)	21,777
Increase (decrease) in operating liabilities -		
Accounts payable	(43,725)	19,001
Accrued expenses	(136,539)	149,032
Deferred revenue	(3,925)	56,810
Net cash provided by operating activities	1,242,962	1,662,265
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property, building and equipment	(166,861)	(75,212)
Purchase of investments	(7,896,028)	(920,706)
Proceeds from sale of investments	5,051,563	744,563
Net cash used for investment activities	(3,011,326)	(251,355)
CASH FLOW FROM FINANCING ACTIVITIES:		
Payments on long term debt	(269,168)	(259,166)
Net cash used for financing activities	(269,168)	(259,166)
NET INCREASE (DECREASE) IN CASH	(2,037,532)	1,151,744
CASH, BEGINNING OF YEAR	2,639,746	1,488,002
CASH, END OF YEAR	\$ 602,214	\$ 2,639,746
SUPPLEMENTAL INFORMATION:		
Interest Paid	\$ 130,733	\$ 131,718
Taxes Paid	\$ 2,207	\$ 2,572
Lease assets obtained in exchange for lease obligations - operating	\$ -	\$ 13,763

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

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Kentucky Bar Association (KBA) is an agency of the judicial branch of the Commonwealth of Kentucky. The KBA implements, administers and enforces Kentucky Supreme Court Rules, regarding the discipline and education of the lawyers of Kentucky and is the professional association for the practice of law in Kentucky.

Measurement Focus/Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been done by classification of all transactions and balances into the category of unrestricted net assets which have no donor-imposed restrictions.

Basis of Presentation

The financial statements are presented in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the KBA is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions, and net assets without donor restrictions. Net assets without donor restrictions are not subject to donor-imposed restrictions and may be designated for specific purposes by action of the Board of Governors. Net assets with donor restrictions are subject to donor-imposed restrictions that can be fulfilled by actions of the organization pursuant to those restrictions or that expire by the passage of time or are subject to donor-imposed restrictions that they be maintained permanently. The KBA has no net assets with donor restrictions as of June 30, 2024 or 2023.

Cash and Cash Equivalents

The KBA considers cash in operating bank accounts to be cash and cash equivalents. Money market accounts in investments are not included in cash and cash equivalents.

Certificates of Deposit

Certificates of deposit are valued at cost.

Investments

Investments are reported at fair value in the statements of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on the ex-dividend date. Unrealized gains and losses are included in the statements of activities.

Property, Building and Equipment

Property, building and equipment accounts are stated at cost. Expenditures greater than \$5,000 and which increase values or extend useful lives of the respective assets are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. At the time assets are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

Revenue

The major sources of revenue are membership dues. All members are required to pay dues to KBA, except for inactive status and honorary members. Dues are determined annually and are recognized as revenues when assessed because they are measurable and are collectible within the current period.

Leases

Leases are classified as operating or finance leases at the lease commencement date. The KBA leases certain facilities and office equipment. The KBA records leases on the statements of financial position in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon the expedient option of using the risk-free rate as of the date of commencement or renewal. The KBA does not record leases on the statements of financial position that are classified as short term (less than one year).

At lease inception, the KBA determines the lease term by considering the minimum lease term and all optional renewal periods that the KBA is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The KBA's leases do not contain residual value guarantees or material variable lease payments that will cause the KBA to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. The KBA's variable lease expense include rent escalators that are based on market conditions and other costs associated with the lease.

The KBA has elected to treat property leases that include both lease and non-lease components as a single component and account for it as a lease.

Depreciation and Amortization

Depreciation and amortization are computed using the straight-line method over the asset's estimated useful lives. Average estimated lives are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Bar Center building	50 years
Furniture, fixtures and equipment	5-10 years

Pension Plan

The KBA has a 401(a) plan for all employees, full and part-time, with Nationwide Financial Services, Inc., Columbus, Ohio. Funding for the plan is provided entirely by the KBA with a 10% contribution made after each payroll effective July 1, 2021. During the fiscal year ended June 30, 2024 and 2023, contributions totaled \$275,279 and \$270,789, respectively, to the 401(a) plan on behalf of the employees. No contributions are required or allowed from the employees into the plan. In addition, the employees have the option to voluntarily participate with Kentucky Deferred Comp through the Kentucky Personnel Cabinet with their various plans for retirement. Contributions are made only by the employee with no contributions made by the KBA.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future Accounting Pronouncements

Accounting for Credit Losses - In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. KBA adopted the ASU on July 1, 2023 using the modified retrospective method. Adoption of this standard did not have a material effect on the KBA's financial statements.

(2) REVENUE RECOGNITION

Contracts with Customers

Material contracts with customers include membership dues, Pro Hac Vice, application fees, and convention and conferences revenue.

Membership dues revenue is recognized on an annual basis, consistent with the KBA's fiscal year end. All performance obligations covered under the membership agreements are satisfied on an annual basis, ending June 30th. Any member that joins the KBA during the year is charged a pro-rated dues payment equal to the amount of time remaining in the fiscal year. Any dues payments received before the corresponding fiscal year, are recorded as deferred revenue at year end. Members are given the opportunity to join various sections of the KBA that provide specialized training and networking opportunities for specific fields of practice.

Membership to these sections requires an additional dues payment that is also billed and recognized on an annual basis, ending June 30th. Other dues on the statements of activities primarily includes an assessment that is collected to fund the Kentucky Lawyers Assistance Program (KYLAP). The KYLAP offers free help to judges, lawyers and law students who are struggling with mental health issues or other conditions.

Membership dues revenue, including sections income and other dues, totaled \$5,130,535 and \$5,165,434, for the years ended June 30, 2024 and 2023, respectively.

Pro Hac Vice revenue consists of payments collected from attorneys licensed outside of Kentucky who wish to practice a case within the State. The revenue is recognized on an annual per case basis, consistent with the KBA's fiscal year end. Any Pro Hac Vice payments received before the corresponding fiscal year, are recorded as deferred revenue at year end. Pro Hac Vice revenue totaled \$560,454 and \$511,430 for the years ended June 30, 2024 and 2023, respectively.

Program application fees consists of fees paid to get CLE accredited by a provider or member. The revenue is recognized at a point in time when the application fee is received. Program application fees totaled \$367,131 and \$353,560 for the years ended June 30, 2024 and 2023, respectively.

Conventions and conferences revenue primarily consists of payments related to specific events, including the annual convention and other events. Revenue is recognized once the specified event has been held. Any payments received in advance of the event are recorded as deferred revenue. Conventions and conference revenue totaled \$489,102 and \$553,760 for the years ended June 30, 2024 and 2023, respectively. Advertising revenues are recognized in a similar manner.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable (contract assets) and deferred revenue (contract liabilities) on the Statements of Financial Position. There were no accounts receivable related to contracts with customers at June 30, 2024, 2023 and 2022. The balances of deferred revenues related to contracts with customers were as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Member dues:			
Deferred revenue	\$ 6,730	\$ 4,443	\$ 3,230
Pro Hac Vice dues:			
Deferred revenue	248,930	260,374	224,033
Advertising:			
Deferred revenue	16,556	15,325	13,118

(3) INVESTMENTS

Investments are administered utilizing the services of the trust department of a bank. A summary of investments at June 30, 2024 is as follows:

	<u>Cost</u>	<u>FMV</u>	<u>Unrealized Gain (Loss)</u>
KBA Long Term Portfolio -			
Money market funds	\$ 599,052	\$ 599,052	\$ -
Fixed income	3,198,653	3,091,933	(106,720)
Equities	5,640,311	7,320,759	1,680,448
Real assets mutual funds	310,290	268,884	(41,406)
	<u>9,748,306</u>	<u>11,280,628</u>	<u>1,532,322</u>
KBA Short Term Portfolio -			
Money market funds	835,511	835,511	-
	<u>835,511</u>	<u>835,511</u>	<u>-</u>
	<u>\$10,583,817</u>	<u>\$12,116,139</u>	<u>\$1,532,322</u>

Investment return is summarized as follows:

Interest/Dividend income	\$ 400,239
Investment fees	(35,163)
Realized gains (losses)	203,853
Change in fair value	906,582
	<u>\$1,475,511</u>

A summary of investments at June 30, 2023 is as follows:

	Cost	FMV	Unrealized Gain (Loss)
KBA Long Term Portfolio -			
Money market funds	\$ 222,613	\$ 222,613	\$ -
Fixed income	2,055,311	1,907,119	(148,192)
Equities	3,303,840	4,126,882	823,042
Real assets mutual funds	307,332	252,431	(54,901)
	<u>5,889,096</u>	<u>6,509,045</u>	<u>619,949</u>
KBA Short Term Portfolio -			
Money market funds	1,407,609	1,407,609	-
Fixed income	238,794	244,585	5,791
	<u>1,646,403</u>	<u>1,652,194</u>	<u>5,791</u>
	<u>\$7,535,499</u>	<u>\$8,161,239</u>	<u>\$625,740</u>

Investment return is summarized as follows:

Interest/Dividend income	\$ 217,771
Investment fees	(27,909)
Realized gains (losses)	(2,721)
Change in fair value	509,364
	<u>\$ 696,505</u>

(4) LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The KBA has not adopted a formal liquidity management plan. The KBA continually reviews its financial assets and assesses if these financial assets are sufficient to meet cash needs for general expenditures. The KBA's financial assets for this purpose include cash and cash equivalents, investments, certificates of deposit and receivables.

As of June 30, 2024 and 2023, the KBA's financial assets available to meet cash needs for general expenses within one year are as follows:

	2024	2023
Financial assets at June 30	\$12,909,518	\$ 11,046,599
Less those unavailable for general expenses within one year due to:		
Board designations -		
Sections and Client Security	(1,545,133)	(1,765,080)
Financial assets available to meet cash needs for general expenses within one year	<u>\$11,364,305</u>	<u>\$ 9,281,519</u>

(5) INCOME TAX STATUS

The KBA is not a private foundation and is exempt from the payment of federal income taxes under Section 501(c)(6) of the Internal Revenue Code of 1954, except on certain unrelated business income, which is not material; accordingly, the accompanying financial statements include no provision or credit for such taxes.

(6) LEASES

The KBA maintains two non-cancelable forty-eight-month operating leases for office equipment (copiers). During the year ended June 30, 2024, one operating lease expired. The monthly payments were \$294 per month. The total monthly payments for the remaining leased copier is \$294.

The KBA entered into a lease for a mailing system during January 2020. The lease is for 60 months under a non-cancelable operating lease expiring in January 2025 with a monthly payment of \$409.

As of June 30, 2024 and 2023, the right-of-use (ROU) asset had a balance of \$10,100 and \$19,518 and the lease liability totaled \$10,100 and \$19,518, respectively. The lease asset and liability were calculated utilizing the risk-free discount rate based on the information available at the commencement date in determining the present value of lease payment. There are renewal options within the lease, which were not considered when assessing the value of the ROU asset because the KBA is not reasonably certain that it will exercise its option to renew the leases.

Additional information about KBA's leases for the year ending June 30, 2024 and 2023 is as follows:

	2024	2023
Lease Costs (included in operating expenses):		
Operating lease costs	\$ 9,604	\$ 11,358
Short term lease costs	19,070	20,422
Total lease costs	<u>\$ 28,674</u>	<u>\$ 31,780</u>
Other Information:		
Lease assets obtained in exchange for lease obligations:		
Operating leases	\$ -	\$ 13,763
Weighted-average remaining lease term (years)	1.18	1.47
Weighted average discount rate	1.27%	1.27%

Maturities of operating lease liabilities as of June 30, 2024:

Fiscal Year	
Ending	
2025	\$ 6,385
2026	3,522
2027	296
Total lease payments	<u>10,203</u>
Less interest	(103)
	<u>\$ 10,100</u>

(7) LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	2024	2023
3.75% Kentucky Revenue Bond, Taxable Series 2018C payable with monthly principal and interest payments with the final payment due January 1, 2033	\$ 2,785,417	\$ 3,054,584
Less current portion	<u>(279,169)</u>	<u>(256,692)</u>
	2,506,248	2,797,892
Less discount	<u>(108,310)</u>	<u>(120,572)</u>
	<u>\$ 2,397,938</u>	<u>\$ 2,677,320</u>

During September 2018, the KBA entered into a promissory note with the City of Frankfort (the City) to repay amounts related to a bond issuance by the City on behalf of the KBA. The City issued a general obligation bond of \$4,180,000 in Kentucky Revenue Bond, Taxable Series 2018C. The Kentucky League of Cities is the program administrator and the Kentucky Bond Corporation is the lessor. The bond was issued for the purpose of funding a note issued by the KBA to fund the payment of the withdrawal liability to the Kentucky Retirement System during the spring of 2019. The maturity date for the note and bond is January 1, 2033. The note and the bond carry a 3.75% interest rate. The bonds included a discount of \$177,794 that will be amortized over the life of the loan through interest expense.

Interest expense for the years ended June 30, 2024 and 2023 was \$139,481 and \$139,709, respectively, which included amortization of the bond discount of \$12,262 in each year.

The principal and interest repayment requirements relating to the above long-term debt at June 30, 2024 are as follows:

Year Ending June 30,	Principal	Interest	Total
2025	\$ 279,169	\$ 100,965	\$ 380,134
2026	289,165	91,194	380,359
2027	301,246	87,070	388,316
2028	314,166	75,606	389,772
2029	326,250	58,979	385,229
Thereafter	<u>1,275,421</u>	<u>121,302</u>	<u>1,396,723</u>
	<u>\$2,785,417</u>	<u>\$ 535,116</u>	<u>\$3,320,533</u>

(8) RELATED PARTY TRANSACTIONS

The Kentucky Bar Foundation, Inc. (the Foundation) is a related party to the Kentucky Bar Association (KBA) in that both organizations share common facilities and that the KBA provides payroll services for the Foundation. The KBA also recorded a receivable of \$416,528 and \$457,165 for the years ended June 30, 2024 and 2023 for the Foundation's share of the withdrawal liability to the Kentucky Retirement System, respectively. The KBA Board of Governors and the Foundation Board agreed on a repayment plan that started September 2019 and will continue until June 2034, with payments of \$10,519 quarterly, bearing no interest.

The following summarizes significant transactions and balances between the two at June 30, 2024 and 2023, and for the years then ended.

	2024	2023
Accounts receivable from Foundation, current	\$ 97,444	\$ 117,179
Accounts receivable from Foundation, long-term	<u>365,733</u>	<u>406,369</u>
Accounts receivable from Foundation	<u>\$463,177</u>	<u>\$ 523,548</u>
Rent paid by Foundation to KBA	<u>\$ 9,600</u>	<u>\$ 9,600</u>

(9) COMPENSATED ABSENCES

In prior years, the KBA has allowed a carryover of a maximum of forty-five unused vacation days accumulating through year end. Accordingly, the KBA has in accrued expenses a liability of \$268,025 and \$287,584 at June 30, 2024 and 2023, respectively, for these future compensated absences.

(10) COMMITMENTS

The KBA is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

(11) DESIGNATED FUND BALANCE

By Board resolution in September 2023, surplus Sections are allowed to be carried over to the next ensuing budget year and have been designated as such in the amount of \$413,734 and \$393,604 for the years ending June 30, 2024 and 2023, respectively. In addition, the Board voted to designate the revenue from Pro Hac renewals to Client Security in the amount of \$1,131,399 and \$1,371,476 for the years ending June 30, 2024 and 2023, respectively.

(12) CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the KBA to concentrations of credit risk consist of cash, which may at times exceed federally insured limits; however, KBA places its cash with high credit quality financial institutions in insured cash sweep accounts. The insured cash sweep accounts place deposits in \$250,000 increments across a network of FDIC insured institution.

(13) PROPERTY, BUILDING AND EQUIPMENT

Property, building and equipment consists of the following at June 30:

	2024	2023
Land and building	\$ 5,048,185	\$ 4,930,861
Furniture, fixtures, and equipment	1,613,364	1,635,883
	6,661,549	6,566,744
Less: accumulated depreciation	4,124,481	3,932,534
	<u>\$ 2,537,069</u>	<u>\$ 2,634,210</u>

(14) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Although the allocation methods used were appropriate, alternative methods may provide different results. Expenses are charged directly to a function based on a calculation of the amount of time spent by employees on those functions, or a calculation of the amount of cost associated with that function. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the KBA.

(15) FAIR VALUE MEASUREMENTS

KBA uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for KBA's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value, a reasonable point within the range, is most representative of fair value under current market conditions.

KBA groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that KBA has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.
- Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair values of assets and liabilities measured on a recurring basis are as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
June 30, 2024				
Money market funds	\$ 1,434,563	\$ 1,434,563	\$ -	\$ -
Fixed income	3,091,933	448,947	2,642,986	-
Equities	7,320,759	7,320,759	-	-
Real asset mutual funds	268,884	268,884	-	-
	<u>\$ 12,116,139</u>	<u>\$ 9,473,153</u>	<u>\$ 2,642,986</u>	<u>\$ -</u>

June 30, 2023	Fair Value	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Money market funds	\$ 1,630,222	\$ 1,630,222	\$ -	\$ -
Fixed income	2,151,704	326,924	1,824,780	-
Equities	4,126,882	4,126,882	-	-
Real asset mutual funds	252,431	252,431	-	-
	<u>\$ 8,161,239</u>	<u>\$ 6,336,459</u>	<u>\$ 1,824,780</u>	<u>\$ -</u>

(16) ECONOMIC UNCERTAINTIES

KBA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets. Global equity markets have experienced significant volatility and weakness. As of the date of this report, the fair value of KBA's investments have fluctuated from their reported values.