

# **Association of Arkansas Counties**

**Financial Statements**  
with Independent Auditor's Report

**December 31, 2022 and 2021**

# Association of Arkansas Counties

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John S. Brock | Jake Froemsdorf | Rocky Goodman | Greg Schichtl | J. Michael Tuohey

To the Board of Directors  
Association of Arkansas Counties  
Little Rock, Arkansas

## **Independent Auditor's Report**

### **Opinion**

We have audited the accompanying financial statements of Association of Arkansas Counties (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, net assets, 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 Association of Arkansas Counties as of December 31, 2022 and 2021, 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 audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Association of Arkansas Counties and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Association of Arkansas Counties' 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.

Association of Arkansas Counties  
Little Rock, AR

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, including omissions, 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 Association of Arkansas Counties' 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 Association of Arkansas Counties' 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.

### **Supplemental Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Garland & Greenwood CPAs and Advisors, PLLC*

Little Rock, AR  
October 6, 2023

Association of Arkansas Counties  
 Statements of Financial Position  
 December 31, 2022 and 2021

	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 2,460,142	\$ 1,054,102
Certificates of deposit	0	500,000
Investments - U.S. Government securities	9,503,099	12,681,058
Accounts receivable	305,981	66,013
Accrued interest receivable	104,022	103,439
Unexpired insurance	37,495	54,763
Other prepaid expenses	64,862	27,100
Property and equipment - net	3,083,284	3,207,950
Restricted assets - Automated Records Systems Trust	354,427	136,187
<b>Total Assets</b>	<b>\$ 15,913,312</b>	<b>\$ 17,830,612</b>
<b>Liabilities and Net Assets</b>		
<i>Liabilities</i>		
Accounts payable	\$ 29,619	\$ 51,344
Accrued expenses	109,592	59,575
Restricted liabilities - Automated Records Systems Trust	354,427	136,187
<b>Total Liabilities</b>	<b>493,638</b>	<b>247,106</b>
<i>Net Assets</i>		
Without donor restrictions:		
Designated for capital improvements	4,701,055	4,301,055
Undesignated	10,718,619	13,282,451
<b>Total Net Assets</b>	<b>15,419,674</b>	<b>17,583,506</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 15,913,312</b>	<b>\$ 17,830,612</b>

See independent auditor's report and the accompanying notes to the financial statements.

Association of Arkansas Counties  
 Statements of Activities  
 For the Years Ended December 31, 2022 and 2021

	2022	2021
<b>Revenues</b>		
<b>Program Revenues</b>		
Members' dues	\$ 214,288	\$ 203,569
Service fees - benefit programs	4,359,912	3,935,998
Annual conference	176,055	148,355
County Lines	36,323	37,325
County Officials' Directory	0	75
County Compliance Guide	20,025	195
Drug and alcohol testing consortium	5,787	6,125
<b>Total Program Revenues</b>	<b>4,812,390</b>	<b>4,331,642</b>
<b>Other Revenues</b>		
Interest	414,297	406,717
Lease income	80,400	77,160
Unrealized gain (loss) on investments	(3,277,960)	(163,109)
Marketing and royalty	14,775	15,819
Continuing education	30,000	30,000
Legal reimbursements	938,901	1,013,453
Miscellaneous	343,635	11,168
<b>Total Other Revenues</b>	<b>(1,455,952)</b>	<b>1,391,208</b>
<b>Total Revenues</b>	<b>3,356,438</b>	<b>5,722,850</b>
<b>Expenses</b>		
Program	4,244,191	3,761,136
Administrative	1,276,079	1,180,283
<b>Total Expenses</b>	<b>5,520,270</b>	<b>4,941,419</b>
<b>Change in Net Assets without Donor Restrictions</b>	<b>\$ (2,163,832)</b>	<b>\$ 781,431</b>

See independent auditor's report and the accompanying notes to the financial statements.

Association of Arkansas Counties  
 Statements of Net Assets  
 December 31, 2022 and 2021

	Net Assets w without Donor Restrictions		
	Designated for Capital Improvements	Undesignated Net Assets	Total Net Assets
<b>Net Assets - January 1, 2021</b>	\$ 4,101,055	\$ 12,701,020	\$ 16,802,075
Excess revenues over expenses	0	781,431	781,431
Amount designated for capital improvements	200,000	(200,000)	0
<b>Net Assets - December 31, 2021</b>	4,301,055	13,282,451	17,583,506
Excess expenses over revenues	0	(2,163,832)	(2,163,832)
Amount designated for capital improvements	400,000	(400,000)	0
<b>Net Assets - December 31, 2022</b>	\$ 4,701,055	\$ 10,718,619	\$ 15,419,674

*See independent auditor's report and the accompanying notes to the financial statements.*

Association of Arkansas Counties  
 Statements of Functional Expenses  
 For the Years Ended December 31, 2022 and 2021

	2022			2021		
	Program	Administrative	Total	Program	Administrative	Total
Annual conference	\$ 291,656	\$ 0	\$ 291,656	\$ 237,139	\$ 0	\$ 237,139
Auto	0	1,969	1,969	0	3,078	3,078
ARP consultant	96,000	0	96,000	64,000	0	64,000
Board of Directors' expense	39,398	0	39,398	44,162	0	44,162
County Lines	40,222	0	40,222	29,716	0	29,716
County NACo dues	62,639	0	62,639	62,639	0	62,639
County Compliance Guide	38,758	0	38,758	0	0	0
Credit card fees	0	7,936	7,936	0	5,877	5,877
Depreciation	0	159,995	159,995	0	163,302	163,302
Dues and subscriptions	0	12,396	12,396	0	8,396	8,396
Insurance - employees' group	228,739	60,804	289,543	212,896	56,593	269,489
Insurance - general	0	57,483	57,483	0	55,722	55,722
Legislative consultant	105,227	0	105,227	101,092	0	101,092
Legislative session	36,216	0	36,216	12,485	0	12,485
Maintenance and repairs	0	79,794	79,794	0	73,430	73,430
Meetings and conferences	60,547	0	60,547	16,273	0	16,273
Office and postage	67,726	18,003	85,729	51,254	13,625	64,879
Outside services	173,446	46,106	219,552	148,226	39,402	187,628
Personnel training	9,977	1,781	11,758	6,005	1,072	7,077
Professional services	0	18,631	18,631	0	14,587	14,587
Rental property	0	17,929	17,929	0	10,000	10,000
Retirement plan	350,388	93,141	443,529	331,399	88,093	419,492
Salaries	2,318,986	616,439	2,935,425	2,182,681	580,206	2,762,887
Scholarship fund donation	9,500	0	9,500	9,500	0	9,500
Service contracts - equipment	54,539	14,498	69,037	52,997	14,088	67,085
Special projects	33,486	8,901	42,387	0	0	0
Taxes - payroll	162,991	43,327	206,318	155,312	41,286	196,598
Taxes - property	6,886	1,830	8,716	6,632	1,763	8,395
Travel - staff	34,498	9,170	43,668	18,081	4,806	22,887
Utilities and telephone	22,366	5,946	28,312	18,647	4,957	23,604
<b>Total Functional Expenses</b>	<b>\$ 4,244,191</b>	<b>\$ 1,276,079</b>	<b>\$ 5,520,270</b>	<b>\$ 3,761,136</b>	<b>\$ 1,180,283</b>	<b>\$ 4,941,419</b>

See independent auditor's report and the accompanying notes to the financial statements.

Association of Arkansas Counties  
 Statements of Cash Flows  
 For the Years Ended December 31, 2022 and 2021

	2022	2021
<b>Cash Flows from Operating Activities</b>		
Cash received from members, rent, and benefit programs	\$ 5,980,133	\$ 5,510,587
Cash paid to suppliers and employees	(5,352,478)	(4,844,348)
Interest received	413,714	388,915
<b>Net cash provided by (used in) operating activities</b>	<b>1,041,369</b>	<b>1,055,154</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale or redemption of investments	500,000	500,000
Purchases of investments	(100,000)	(1,572,299)
Expenditures for property and equipment	(35,329)	(21,276)
<b>Net cash provided by (used in) investing activities</b>	<b>364,671</b>	<b>(1,093,575)</b>
<b>Cash Flows from Financing Activities</b>		
None	0	0
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,406,040</b>	<b>(38,421)</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>1,054,102</b>	<b>1,092,523</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 2,460,142</b>	<b>\$ 1,054,102</b>
<b>Reconciliation of change in net assets to net cash provided by (used in) operating activities</b>		
Change in net assets	\$ (2,163,832)	\$ 781,431
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	159,995	163,302
Unrealized (gain) loss investments	3,277,960	163,109
Decrease (increase) in assets:		
Accounts receivable	(239,968)	31,345
Accrued interest receivable	(583)	(17,802)
Prepaid expenses	(20,495)	(30,151)
Increase (decrease) in liabilities:		
Deferred revenue	0	(600)
Accounts payable	(21,725)	(50,198)
Accrued expenses	50,017	14,718
<b>Total adjustments</b>	<b>3,205,201</b>	<b>273,723</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,041,369</b>	<b>\$ 1,055,154</b>

See independent auditor's report and the accompanying notes to the financial statements.

### **Note 1 - Nature of Operations**

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*Organization.* The Association of Arkansas Counties (AAC) was incorporated April 10, 1968, under the provisions of the Arkansas Nonprofit Corporation Act. The stated purpose and aim of AAC is to aid in the improvement of county government in the state of Arkansas.

AAC has established two trusts, the Workers' Compensation Trust (WCT) and the Risk Management Fund (RMF), for the purpose of administering two benefit programs (page 19). AAC's primary source of revenue is administrative service fees from these Trusts.

### **Note 2 – Summary of Significant Accounting Policies**

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*Basis of Accounting.* AAC uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) which recognizes income when earned and expense when incurred.

*Financial Statement Presentation.* In accordance with GAAP, AAC reports 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 with donor restrictions are subject to conditions imposed by donors and can be temporary or permanent in nature. Net assets without donor restrictions are not subject to any conditions and are available for use in AAC's operations at the discretion of the Board of Trustees. There were no net assets with donor restrictions at December 31, 2022 or 2021.

*Reclassifications.* Certain reclassifications have been made to the December 31, 2021, financial statements to conform to the December 31, 2022, presentation, with no effect on net assets.

*Advertising.* Advertising costs are expensed as incurred. AAC did not expense any advertising for the years ended December 31, 2022 and 2021.

*Income Taxes.* AAC received a private letter ruling from the Internal Revenue Service (IRS) dated March 22, 1995, determining that all income of AAC is excludable from gross income under Internal Revenue Code (IRC) §115. For IRC §115 to apply the entity must meet a two-fold test for exclusion; 1.) the entity must exercise an essential governmental function and 2.) all income from the entity must accrue exclusively to political subdivisions. Relying on the private letter ruling management has determined no income tax liability is necessary and therefore none is reflected in the financial statements.

*Cash and Cash Equivalents.* For purposes of the Statements of Cash Flows, AAC considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash and/or cash equivalents.

*Investments.* Investments in U.S. Government securities are reported at fair market value when available. Investments in certificates of deposit are reported at cost which approximates fair market value. Unrealized gains and losses are included in the changes in net assets in the Statements of Activities.

*Property and Equipment.* Property and equipment are stated at cost and are depreciated on a straight-line basis over estimated useful lives. Renewals and improvements, which materially increase the useful lives of property and equipment, are capitalized. Maintenance and repairs are charged to operations as incurred. Gains or losses on dispositions of property and equipment are reflected in earnings when realized.

**Note 2 – Summary of Significant Accounting Policies (continued)**

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*Accounts Receivable and Allowance for Doubtful Accounts.* Accounts receivable are stated at the amount AAC expects to collect. AAC maintains an allowance for doubtful accounts for estimated losses resulting from the failure of its customers (primarily member counties) to make required payments. Management considers the following factors when determining the collectability of specific accounts: past transactions history with the accounts, current economic trends, and changes in payment terms. Based on management's assessment AAC provides for estimated uncollectible accounts through a charge to earnings and a credit to a valuation allowance. Balances which remain outstanding after AAC has exercised reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. For the years ended December 31, 2022 and 2021, management has determined that no allowance is required and any uncollectible amount as of the end of the year would not be material. If the financial conditions of AAC's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required.

*Use of Estimates.* The preparation of financial statements in accordance with GAAP 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 the reported amounts of revenues and expenses. Actual results could differ from those estimates.

*Membership Dues.* Membership dues are billed annually and are based upon rates provided by Arkansas law. If the Quorum Court of the county authorizes participation in AAC, current law stipulates that one percent of the general revenues received by that county, from the County Aid Fund in the State Treasury during the preceding year, will be appropriated as dues to AAC. Participation in this association is optional.

*Compensated Absences.* Employees of AAC are entitled to personal time off to use for vacation, personal business, and sick days, based upon length of service. The estimated amount of compensation due has been determined to be immaterial; therefore, no liability has been recorded in the accompanying financial statements.

*Functional Allocations of Expenses.* The cost of providing the various programs, activities, and management has been reported by function and natural expense classification in the Statement of Functional Expenses. AAC does not solicit contributions therefore AAC does not have fundraising expenses.

*Leases.* In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases (Topic 842), which among other things, requires the recognition of right of use lease assets and lease liabilities on the statement of financial position of lessees for operating leases, along with the disclosure of key information about leasing arrangements. A lessee is required to record lease assets and lease liabilities for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be expensed as incurred.

In addition to the requirements for lessees, Topic 842 requires lessors with operating leases to continue carrying the leased asset in the statement of financial position and depreciate it according to the entities depreciation policy. Operating lease revenue is required to be reported as it becomes receivable on a straight-line basis unless a more representative basis that is systematic and rational is available. The ASU was effective with the year ended December 31, 2022, and had no impact on the statement of financial position.

**Note 2 – Summary of Significant Accounting Policies (continued)**

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*Revenue Recognition.* AAC adopted FASB ASC 606, Revenue from Contracts with Customers, which amended existing accounting standards for revenue recognition. The adoption of this new standard does not have a significant impact on the amount and timing of revenue recognized in AAC's financial statements. Based on AAC's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Under FASB ASC 606, revenue is recognized when a customer obtains control of the promised product or receives a service in an amount that reflects the consideration which AAC expects to receive in exchange for the product or service. To determine revenue recognition for arrangements that AAC determines are within the scope of FASB ASC 606, AAC performs the following five steps: 1) identify the contract with a customer; 2) identify the performance obligation(s) in the contract; 3) determine the contract price; 4) allocate the transaction price to the performance obligation(s) in the contract; and 5) recognize revenue when, or as, AAC satisfies the performance obligation(s).

AAC only applies the five-step model to contracts when it is probable that AAC will collect on the consideration it is entitled to in exchange for the product it transfers or service it provides to the customer. At contract inception, once the contract is determined to be within the scope of FASB ASC 606, AAC assesses whether each promised product or service is distinct. AAC then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when, or as the performance obligation is satisfied.

Services – AAC has determined that membership benefits, service fees for benefit programs, annual conference registrations, and drug and alcohol testing services are each a distinct service and relate to a specific calendar year. Therefore, each service qualifies as one performance obligation satisfied over time as the service contract is performed.

Product Sales - AAC publishes and sells two periodicals, County Officials Directory and County Compliance Guide. The performance obligation of these products is delivery of the periodical to the customer. The transaction price is established by AAC based on production costs. Each periodical is individually priced, no allocation of the transaction price is necessary. AAC recognizes revenue as the customer pays for and takes possession of the product. None of the periodicals are sold with a right of return.

*Date of Management's Review.* Management has evaluated subsequent events through October 6, 2023, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2022.

**Note 3 – Certificates of Deposit**

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During the year ended December 31, 2022, AAC did not renew certificates of deposit held at various banks as they matured. The funds were transferred to operations or reinvested in government bonds. The certificates of deposit held as of December 31, 2021, had interest rates ranging from 0.41% to 2.5%. All had an original maturity date of greater than three months and less than or equal to twenty-four months. At December 31, 2021, \$500,000 of certificates of deposit would be considered current on a classified statement of financial position.

**Note 4 – Investments – U.S. Government Securities**

Investments in U.S. Government securities held as of December 31, 2022 and 2021, had interest rates ranging from 2% to 5.37%. The following is a summary of securities with current and long-term maturities:

	2022	2021
Current	\$ 0	\$ 0
Long-term	9,503,099	12,681,058
<b>Total U.S. Government Securities</b>	<b>\$ 9,503,099</b>	<b>\$ 12,681,058</b>

The balance of the U.S. Government securities includes cumulative market value decreases of \$3,165,253 and \$112,707 as of December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, the Statements of Activities include negative market value adjustments of \$3,277,960 and \$163,109, respectively. Investments in U.S. Government securities are not subject to Federal Deposit Insurance Corporation (FDIC) insurance or collateralization.

Subsequent to December 31, 2022, the bond interest rate market has experienced changes. As of September 30, 2023, AAC's market value of U.S. Government securities have decreased by 3.88% or \$368,581. AAC will continue to monitor its investments as it has successfully done in the past. AAC has always held investments to their maturity dates, therefore AAC has no immediate plans to change its investment portfolio.

**Note 5 – Property and Equipment**

	Cost	Accumulated Depreciation	Net Book Value
<b>December 31, 2022</b>			
Land	\$ 1,074,784	\$ 0	\$ 1,074,784
Furniture and equipment	216,686	207,172	9,514
Buildings and improvements	4,071,214	2,171,534	1,899,680
Vehicles	76,885	29,874	47,011
Website and technology	390,414	338,119	52,295
<b>Total Property and Equipment</b>	<b>\$ 5,829,983</b>	<b>\$ 2,746,699</b>	<b>\$ 3,083,284</b>
<b>December 31, 2021</b>			
Land	\$ 1,074,784	\$ 0	\$ 1,074,784
Furniture and equipment	216,686	199,700	16,986
Buildings and improvements	4,071,213	2,065,479	2,005,734
Vehicles	68,158	38,725	29,433
Website and technology	385,044	304,031	81,013
<b>Total Property and Equipment</b>	<b>\$ 5,815,885</b>	<b>\$ 2,607,935</b>	<b>\$ 3,207,950</b>

Depreciation and amortization expense charged against income for the years ended December 31, 2022 and 2021, was \$159,995 and \$163,302, respectively. Included in the property and equipment totals above are the underlying assets for operating leases as described in Note 9.

**Note 6 – Cash Deposits with Financial Institutions**

AAC’s cash deposits are categorized to give an indication of the level of risk assumed by AAC at December 31, 2022 and 2021. The categories are described as follows:

Category 1 - Insured and collateralized with securities held by the entity or by its agent in the entity’s name.

Category 2 - Collateralized with securities held by the pledging financial institution’s trust department or its agent in the entity’s name.

Category 3 - Uncollateralized.

Description	Institution Balance	Category			Carrying Amount
		1	2	3	
<b>December 31, 2022</b>					
Certificates of deposit	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Cash held in bank	2,570,997	250,000	2,320,997	0	2,570,997
<b>Total Cash Deposits</b>	<b>\$ 2,570,997</b>	<b>\$ 250,000</b>	<b>\$ 2,320,997</b>	<b>\$ 0</b>	<b>\$ 2,570,997</b>
<b>December 31, 2021</b>					
Certificates of deposit	\$ 500,000	\$ 500,000	\$ 0	\$ 0	\$ 500,000
Cash held in bank	1,073,786	250,000	823,786	0	1,073,786
<b>Total Cash Deposits</b>	<b>\$ 1,573,786</b>	<b>\$ 750,000</b>	<b>\$ 823,786</b>	<b>\$ 0</b>	<b>\$ 1,573,786</b>

AAC’s cash balances fluctuate during the year and at times exceed the \$250,000 federally insured limit. As of December 31, 2022 and 2021, there were no cash deposits which were not insured or collateralized.

**Note 7 – Deferred Compensation Plan**

Full-time employees of AAC are eligible to contribute to a 457 deferred compensation plan administered by Nationwide Retirement Solutions. Pursuant to §457 of the Internal Revenue Code, a custodial account has been established for the exclusive benefit of the plan’s participants and beneficiaries; therefore, plan assets and liabilities are not a part of the financial statements. AAC does not match or contribute to this plan.

### **Note 8 – Employees' Retirement Plans**

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Eligible employees of AAC currently participate in the Arkansas Public Employees Retirement System (APERS), a defined benefit plan.

- (A) *Plan Description and Eligibility.* All Association personnel working at least 90 days a year and at least 80 hours per month are covered under APERS, a cost-sharing multiple-employer defined benefit pension plan. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by state law and can be amended only by the Arkansas General Assembly. APERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201, or calling 1-800-682-7377.
- (B) *Funding Policy.* Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. For the years ended December 31, 2022 and 2021, the statutory employer rate was 15.32%, of the annual covered payroll. Employees hired on or after July 1, 2007, are required to contribute 5% of their annual payroll to the plan, while employees hired prior to July 1, 2005, could elect to contribute 5%. AAC's contribution to APERS for the years ended December 31, 2022 and 2021, was \$443,529 and \$419,492, respectively.

### **Note 9 – Operating Leases**

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AAC owns commercial property that is currently being leased as follows:

*310 South Victory Street.* On September 15, 2017, AAC entered into a three-year lease agreement with lease payments escalating each year according to the following scale: Year 1 - \$2,825 monthly; Year 2 - \$2,880 monthly; and Year 3 - \$2,940 monthly. This lease expired in September of 2020 and is currently on a month-to-month basis. Due to the COVID-19 Coronavirus pandemic, AAC granted lease payment relief to the tenant and reduced the monthly lease payment to \$1,500 and restored the lease payment back to pre-pandemic levels in March of 2021. Lease payments received on this property totaled \$35,280 and \$32,400 for the years ended December 31, 2022 and 2021, respectively.

*Acme Building.* AAC entered a five-year lease beginning in October 2017 with lease payments escalating according to the following scale: Year 1 - \$1,855 monthly; Year 2 - \$1,890 monthly; Year 3 - \$1,930 monthly; Year 4 - \$1,970 monthly; and Year 5 - \$2,010 monthly. This lease expired in October 2022 and is currently on a month-to-month basis. Lease payments received on this property totaled \$24,120 and \$23,760 for the years ended December 31, 2022 and 2021, respectively.

*Association of Arkansas Counties Building.* AAC entered a three-year lease with the Arkansas Sheriff's Association (ASA), beginning in September 2014, with lease payments of \$2,000 per month. This lease expired in September 2017 and is currently on a month-to-month basis. Due to the COVID-19 Coronavirus pandemic, AAC granted lease payment relief to ASA and reduced the monthly lease payment to \$1,750 and has not yet increased the lease payment back to pre-pandemic levels. Lease payments received on this property totaled \$21,000 for each of the years ended December 31, 2022 and 2021.

**Note 9 – Operating Leases (continued)**

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The following is a summary of the carrying amounts of the underlying assets related to operating leases:

	Cost	Accumulated Depreciation	Net Book Value
<b>December 31, 2022</b>			
Land	\$ 510,305	\$ 0	\$ 510,305
Buildings	403,599	(330,946)	72,653
<b>Total Leased Assets</b>	<b>\$ 913,904</b>	<b>\$ (330,946)</b>	<b>\$ 582,958</b>
<b>December 31, 2021</b>			
Land	\$ 510,305	\$ 0	\$ 510,305
Buildings and improvements	403,599	(325,586)	78,013
<b>Total Leased Assets</b>	<b>\$ 913,904</b>	<b>\$ (325,586)</b>	<b>\$ 588,318</b>

**Note 10 – Designated Net Assets**

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During the years ended December 31, 2022 and 2021, the Board of Directors of AAC voted to set aside and designate \$400,000 and \$200,000, respectively, for the purpose of capital improvements. These funds are considered designated net assets until disbursed. Total designated funds available for capital improvements are \$4,701,055 and \$4,301,055 for the years ended December 31, 2022 and 2021, respectively.

**Note 11 – Service Fees – Benefit Programs**

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AAC serves as the administrator for WCT and RMF. AAC services all claims filed, and provides loss prevention services, administrative services, and marketing assistance for a negotiated fee, determined annually. These fees are estimated for the year and paid monthly. An annual settlement occurs at the end of each year.

For the years ended December 31, 2022 and 2021, total fees paid or payable to AAC from WCT were \$1,461,761 and \$1,401,981, respectively. Fees for services due back to WCT from AAC were \$29,619 as of December 31, 2022, and fees for services payable to AAC from WCT were \$13,559 as of December 31, 2021.

AAC also received administrative service fees from RMF in the amount of \$2,898,151 and \$2,534,016 for the years ended December 31, 2022 and 2021, respectively. Fees for services payable to AAC from RMF were \$82,325 and \$52,368 as of December 31, 2022 and 2021, respectively.

**Note 12 – Restricted Assets and Liabilities – Automated Records Systems Trust**

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During the 2007, regular session of the 86<sup>th</sup> Arkansas General Assembly, Act 615 (the Act) was passed, amending Arkansas Code 14-20-107. This Act created a trust fund on the books of AAC to be known as the “Automated Records Systems Trust” (ARST). ARST is to be funded by Class 6 and Class 7 counties by remitting to ARST on a monthly basis \$1 for each document recorded in the specific county recorders’ offices. These funds are to be administered by a committee comprised of the county recorders of the Class 6 and Class 7 counties and are to be used to fund automation of records systems in Class 1 through Class 5 counties by awarding grants to those counties who qualify. The Act requires the available funds to be substantially expended on an annual basis. Because AAC has no control over these funds or disbursements, ARST is treated as an agency trust fund and reported on AAC’s financial statements as restricted assets and liabilities.

ARST reported the following transactions for the years ended December 31:

	2022	2021
<b>ARST Income</b>		
Fees collected and accrued	\$ 355,242	\$ 406,848
Investment income	586	137
Total ARST Income	<u>355,828</u>	<u>406,985</u>
<b>ARST Expenditures</b>		
Grants awarded to Class 1 - Class 5 counties	137,588	460,774
Total ARST Expenditures	<u>137,588</u>	<u>460,774</u>
<b>Excess Revenues (Expenditures) - Restricted for ARST's Purposes</b>	218,240	(53,789)
<b>ARST Fund Balance - Beginning of Year</b>	136,187	189,976
<b>ARST Fund Balance - End of Year</b>	<u>\$ 354,427</u>	<u>\$ 136,187</u>
<b>Restricted Assets of ARST</b>		
Cash in bank	\$ 326,722	\$ 102,341
Accounts receivable	27,705	33,846
<b>Net Restricted Assets</b>	<u>\$ 354,427</u>	<u>\$ 136,187</u>

**Note 13 – Fair Value of Financial Instruments**

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AAC has adopted Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements and Disclosures for Financial Assets and Liabilities (ASC 820)*, which defines fair value as an exit price, representing the amount 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value.

**Note 13 – Fair Value of Financial Instruments (continued)**

The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs, other than Level 1 inputs, that are either directly or indirectly observable.
- Level 3 – Unobservable inputs developed using AAC’s estimates and assumptions, which reflect those that market participants would use.

The following table summarizes AAC’s financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021, segregated among the appropriate levels within the fair value hierarchy:

Description	Fair Value	Fair Value Using		
		Level 1	Level 2	Level 3
<b>December 31, 2022</b>				
U.S. Government securities	\$ 9,503,099	\$ 9,503,099	\$ 0	\$ 0
<b>December 31, 2021</b>				
U.S. Government securities	\$ 12,681,058	\$ 12,681,058	\$ 0	\$ 0

**Note 14 – Liquidity and Availability**

As of December 31, 2022, AAC had working capital of \$2,733,291 and average days (based on normal expenditures) cash on hand of 163 days.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following:

	December 31, 2022
Financial assets at year end:	
Cash and cash equivalents	\$ 2,460,142
Investments - U.S. Government securities	9,503,099
Receivables	410,003
Total Financial Assets	<u>12,373,244</u>
Less amounts not available to be used within one year:	
Designated for capital improvements	<u>4,701,055</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 7,672,189</u>

AAC has certain board designated assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above.

**Supplemental  
Information**

Association of Arkansas Counties  
History of the Organization and Comments

AAC was organized on February 13, 1968, with a meeting of two hundred Arkansas County officials in Little Rock. A Board of Directors and Officers were elected at that time.

Originally serving with the officers were eleven other county officials. In December 1980, the Board of Directors voted to add the Coroner's Association to their membership and add a County Coroner to the Board. In 1998, another position for the County Collector's Association was added, bringing the number of directors to the present sixteen. At December 31, 2022, the officers of AAC were as follows:

President	Debbie Wise – Randolph County Circuit Clerk
Vice President	Brandon Ellison – Polk County Judge
Secretary-Treasurer	Jimmy Hart – Conway County Judge

All directors serve without compensation; however, they do receive a per diem when attending meetings. The Secretary-Treasurer is custodian of the net assets of AAC and is responsible for the minutes of all official meetings of the Board of Directors and the membership.

The initial funding of AAC in February, March and April of 1968 came from the various Associations of County Officials, to wit:

Arkansas County Clerks Association	\$ 200
Arkansas Tax Assessors Association	200
Arkansas Circuit Clerks Association	200
Arkansas Sheriffs Association	250
Arkansas Association of County Judges	500
Arkansas County Treasurers Association	<u>200</u>
Total Initial Funding	<u>\$ 1,550</u>

During the years 1968 and 1969, additional funds were donated by these associations and other donors.

Act 92 of 1969 authorized the Quorum Courts of each of the counties in the State to appropriate from the county general funds an amount equal to one percent (1%) of the general revenues received from the County Aid Fund in the State Treasury. The first county to participate under the act was Woodruff County, which made the initial contribution in November 1969.

AAC was the defendant in a taxpayer's suit for injunction and declaratory relief, which sought to prohibit the counties of the State from contributing public funds to AAC. In a final decree issued by Chancellor James Chestnutt of Garland County, based on a memorandum opinion dated October 10, 1977, and Act 92 of 1969, the activities of AAC were found to be constitutional. The final decree of the Chancery Court, which was not appealed, removed any contingent liability regarding the constitutionality of the financial participation of the counties in AAC.

Act 92 of 1969 specifies that only the Quorum Court of each county can authorize the county to pay dues to AAC. All Arkansas counties were members of AAC in 2022 and 2021. The schedules on page 23 show the amount paid by each County to AAC for the years ended December 31, 2022 and 2021.

### **Records, Reports, and Record Keeping**

The financial statements of AAC were audited and an unmodified opinion was expressed. An annual budget is prepared for the Board of Directors that compares actual expenditures with those budgeted. A comparison of revenues, certain expenses and fixed asset purchases to the budget is presented as supplemental information to the financial statements. Monthly financial reports are presented to the Directors at their meetings, keeping them informed regarding the financial affairs of AAC. Complete and descriptive minutes of all official meetings of the Board of Directors and the membership have been kept as a permanent record of the activities of AAC.

All record keeping is done in the Little Rock office. Cindy Posey serves as accountant for AAC. The operations of AAC are under the general supervision of the Executive Director, Chris Villines.

### **Workers' Compensation Trust**

AAC has established a trust for the purpose of administering a Self-Insured Workers' Compensation Insurance program for its member counties. Effective January 1, 1998, all of the operations of WCT have been handled by AAC. Prior to this date, a private administrator provided these services. The activities of WCT are under the direction of five trustees, three of whom serve on AACs' Board, and two of whom serve at-large. The financial statements of WCT are not included in financial statements of AAC, since it is a separate and distinct entity and AAC has no right or claim to any of WCT's net assets. WCT is the subject of a separate audit.

### **Risk Management Fund**

AAC has established a trust for the purpose of administering a Risk Management Program for its member counties. A private administrator provided claims services for RMF through March 24, 1998. Effective March 25, 1998, all of the operations of RMF have been handled by AAC. The activities of RMF are under the direction of seven trustees, who are elected officials of member counties. The financial statements of RMF are not included in financial statements of AAC, since it is a separate and distinct entity and AAC has no right or claim to any of its net assets. RMF is the subject of a separate audit.

### **Scholarship Trust**

On April 3, 1985, AAC established the Association of Arkansas Counties Scholarship Trust (the Trust). The purpose of the Trust is to establish and maintain a college scholarship fund to provide financial assistance to students attending a college or other qualifying educational institution of their choice. The Trust has tax-exempt status under §501(c)(3) of the Internal Revenue Code. A three person Board of Trustees directs the Trust. AAC funded the Trust with an initial contribution of \$1,500. The financial statements of the Trust are not included in financial statements of AAC since it is a separate and distinct entity and AAC has no right or claims to any of its net assets.

Association of Arkansas Counties  
Schedule of Revenues, Expenses, and Fixed Asset Purchases  
Actual to Budget  
For the Year Ended December 31, 2022

	Actual	Budget	Favorable (Unfavorable)
<b>Revenues:</b>			
Members' dues	\$ 214,288	\$ 214,288	\$ 0
Annual conference	176,055	160,000	16,055
Service fees - benefit programs	4,359,912	4,260,061	99,851
Investment income	414,297	350,000	64,297
Lease income	80,400	80,900	(500)
County Officials' Directory	0	50	(50)
Drug and alcohol testing	5,787	6,100	(313)
County Compliance Guides	56,348	76,250	(19,902)
Photocopy and postage reimbursements	137	801	(664)
Legal reimbursements	938,901	881,952	56,949
Continuing education fees	30,000	42,000	12,000
Opioid litigation revenue	318,839	200,000	(118,839)
Other income	39,434	25,000	14,434
<b>Total Revenues</b>	<b>6,634,398</b>	<b>6,297,402</b>	<b>123,318</b>
<b>Expenses and Fixed Asset Purchases:</b>			
Annual conference	291,656	200,000	(91,656)
ARP consultant	96,000	64,000	(32,000)
Auto	1,969	10,000	8,031
Auto insurance	6,019	5,750	(269)
Bank charges	3,056	2,100	(956)
Board of directors' expense	39,398	40,000	602
Contract labor	0	10,000	10,000
County NACo dues	62,639	62,639	0
County Lines	40,222	40,000	(222)
Compliance guide printing	38,758	38,968	210
Dues and subscriptions	12,396	9,000	(3,396)
Insurance - property	18,389	17,000	(1,389)
Insurance - dental	14,881	14,962	81
Insurance - vision	3,155	3,180	25
Insurance - employees' group	253,297	268,826	15,529
Insurance - directors' and officers' bonds	11,139	11,500	361
Janitorial service	11,711	15,200	3,489
Lawyers' professional liability insurance	15,186	15,000	(186)
Legal fees	4,381	5,000	619
Legislative consultant	98,325	98,325	0
Legislative consultant expense	6,902	10,000	3,098
Legislative session	36,216	50,000	13,784
Maintenance and repairs	79,794	36,000	(43,794)
Subtotal of Expenses and Fixed Asset Purchases	\$ 1,145,489	\$ 1,027,450	\$ (118,039)

See independent auditor's report and the accompanying notes to the financial statements.

Association of Arkansas Counties  
Schedule of Revenues, Expenses, and Fixed Asset Purchases (continued)  
Actual to Budget  
For the Year Ended December 31, 2022

	Actual	Budget	Favorable (Unfavorable)
<b>Expenses and Fixed Asset Purchases: (continued)</b>			
Sub-total carried forward from previous page	\$ 1,145,489	\$ 1,027,450	\$ (118,039)
NACo summer conference	46,204	40,000	(6,204)
NCCAE meeting	14,343	18,000	3,657
Miscellaneous	11,696	7,750	(3,946)
Merchange discount fees	4,880	5,000	120
Long/short-term disability	18,210	18,631	421
Postage	25,153	25,000	(153)
Networking services	32,895	37,000	4,105
Opioid litigation	0	5,000	5,000
Office and printing	51,591	47,000	(4,591)
Outside services	49,750	0	(49,750)
Personnel training	11,758	35,000	23,242
Professional services	14,250	13,250	(1,000)
Rental property	17,929	15,000	(2,929)
Retirement plan	443,529	454,713	11,184
Salaries	2,935,425	2,968,106	32,681
Scholarship fund donation	9,500	10,000	500
Service contracts - equipment	69,037	70,000	963
Special projects	42,387	60,000	17,613
Systems software/support	125,196	110,000	(15,196)
Taxes - payroll	206,318	217,773	11,455
Taxes - property	8,716	8,150	(566)
Travel - staff	43,668	50,000	6,332
Utilities	28,312	30,000	1,688
Workers' compensation insurance	4,039	4,000	(39)
Capital Items:			
Fixed assets, computer equipment, and software	0	70,000	70,000
Board designated - capital fund improvements	400,000	400,000	0
<b>Total Expenses and Fixed Asset Purchases</b>	<b>5,760,275</b>	<b>5,746,823</b>	<b>(13,452)</b>
<b>Excess Revenues Over Expenses and Fixed Asset Purchases</b>	<b>\$ 874,123</b>	<b>\$ 550,579</b>	<b>\$ 323,544</b>

Amounts in the actual column do not include unbudgeted items as follows: depreciation expense of \$159,995; realized loss on investments of \$406; unrealized loss on investments of \$3,277,960.

See independent auditor's report and the accompanying notes to the financial statements.

Association of Arkansas Counties  
Schedules of Cash and Investments  
For the Years Ended December 31, 2022 and 2021

	2022	2021
<b>Cash and Investments</b>		
Cash and Cash Equivalents:		
Petty cash on hand	\$ 100	\$ 100
Bank OZK	2,460,042	1,054,002
Certificates of Deposit:		
First State Bank - Lonoke	0	100,000
Horatio State Bank	0	200,000
Bank of Brinkley	0	100,000
Malvern National Bank	0	100,000
Government Bonds:		
<i>Held in -</i>		
Raymond James	8,439,281	11,241,452
Crews & Associates	1,063,818	1,439,606
<b>Total Cash and Investments</b>	<b>\$ 11,963,241</b>	<b>\$ 14,235,160</b>

*See independent auditor's report and the accompanying notes to the financial statements.*

Association of Arkansas Counties  
Schedules of Members' Dues by County  
For the Years Ended December 31, 2022 and 2021

County	2022	2021	County	2022	2021	County	2022	2021
Arkansas	\$ 2,448	\$ 2,368	Garland	\$ 3,925	\$ 3,712	Newton	\$ 2,271	\$ 2,181
Ashley	2,482	2,417	Grant	2,462	2,347	Ouachita	2,546	2,492
Baxter	2,883	2,760	Greene	2,956	2,770	Perry	2,321	2,218
Benton	7,201	5,899	Hempstead	2,500	2,430	Phillips	2,438	2,415
Boone	2,808	2,680	Hot Spring	2,731	2,610	Pike	2,324	2,233
Bradley	2,330	2,237	Howard	2,370	2,276	Poinsett	2,551	2,465
Calhoun	2,227	2,129	Independence	2,818	2,675	Polk	2,485	2,396
Carroll	2,646	2,515	Izard	2,384	2,275	Pope	3,270	3,114
Chicot	2,324	2,242	Jackson	2,441	2,350	Prairie	2,290	2,188
Clark	2,524	2,437	Jefferson	3,339	3,387	Pulaski	9,243	8,716
Clay	2,402	2,316	Johnson	2,601	2,481	Randolph	2,473	2,349
Cleburne	2,582	2,489	Lafayette	2,255	2,169	Saline	4,338	3,905
Cleveland	2,277	2,187	Lawrence	2,431	2,340	Scott	2,318	2,232
Columbia	2,548	2,464	Lee	2,296	2,218	Searcy	2,282	2,179
Conway	2,511	2,407	Lincoln	2,373	2,282	Sebastian	4,416	4,230
Craighead	4,122	3,719	Little River	2,357	2,266	Sevier	2,425	2,333
Crawford	3,213	3,117	Logan	2,519	2,426	Sharp	2,450	2,337
Crittenden	3,000	2,924	Lonoke	3,460	3,229	St. Francis	2,554	2,529
Cross	2,442	2,348	Madison	2,437	2,310	Stone	2,363	2,252
Dallas	2,258	2,177	Marion	2,442	2,326	Union	2,838	2,762
Desha	2,346	2,263	Miller	2,901	2,794	Van Buren	2,424	2,338
Drew	2,452	2,359	Mississippi	2,867	2,847	Washington	6,517	5,580
Faulkner	4,340	4,012	Monroe	2,264	2,178	White	3,509	3,381
Franklin	2,447	2,352	Montgomery	2,294	2,201	Woodruff	2,254	2,162
Fulton	2,358	2,249	Nevada	2,291	2,193	Yell	2,503	2,423
<b>Total Members' Dues by County</b>							<b>\$ 214,288</b>	<b>\$ 203,569</b>

See independent auditor's report and the accompanying notes to the financial statements.