

Association of Arkansas Counties

Financial Statements
with Independent Auditor's Report

December 31, 2023 and 2022

Association of Arkansas Counties

Contents

	Page
Independent Auditor's Report	2 - 3
Financial Statements	
Statements of Financial Position	4
Statements of Activities	5
Statements of Net Assets	6
Statements of Functional Expenses	7
Statements of Cash Flows	8
Notes to the Financial Statements	9 - 17
Supplemental Information	
History of the Organization and Comments	18 - 19
Schedule of Revenues, Expenses, and Fixed Asset Purchases - Actual to Budget	20 - 21
Schedules of Cash and Investments	22
Schedules of Members' Dues by County	23



John S. Brock | Jake Froemsdorf | Rocky Goodman | Greg Schichtl

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, 2023 and 2022, 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, 2023 and 2022, 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.

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 21, 2024

Association of Arkansas Counties
 Statements of Financial Position
 December 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 4,130,486	\$ 2,460,142
Investments - U.S. Government securities	9,932,883	9,503,099
Accounts receivable	241,763	305,981
Accrued interest	104,022	104,022
Unexpired insurance	52,061	37,495
Other prepaid expenses	64,192	64,862
Property and equipment - net	3,078,778	3,083,284
Restricted assets - Automated Records Systems Trust	109,740	354,427
Total Assets	\$ 17,713,925	\$ 15,913,312
Liabilities and Net Assets		
<i>Liabilities</i>		
Accounts payable	\$ 12,889	\$ 29,619
Accrued expenses	93,922	109,592
Restricted liabilities - Automated Records Systems Trust	109,740	354,427
Total Liabilities	216,551	493,638
<i>Net Assets</i>		
Without donor restrictions:		
Designated for capital improvements	5,201,055	4,701,055
Undesignated	12,296,319	10,718,619
Total Net Assets	17,497,374	15,419,674
Total Liabilities and Net Assets	\$ 17,713,925	\$ 15,913,312

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, 2023 and 2022

	2023	2022
Revenues		
Program Revenues		
Members' dues	\$ 214,288	\$ 214,288
Service fees - benefit programs	4,825,283	4,359,912
Annual conference	275,100	176,055
Clearinghouse	180,175	0
Letter service	119,010	0
County Lines	36,375	36,323
County Officials' Directory	13,210	0
County Compliance Guide	6,525	20,025
Drug and alcohol testing consortium	5,652	5,787
Total Program Revenues	5,675,618	4,812,390
Other Revenues		
Interest	504,418	414,297
Lease income	81,010	80,400
Unrealized gain (loss) on investments	429,785	(3,277,960)
Marketing and royalty	13,332	14,775
Continuing education	42,000	30,000
Legal reimbursements	1,189,348	938,901
Miscellaneous	386,836	343,635
Total Other Revenues	2,646,729	(1,455,952)
Total Revenues	8,322,347	3,356,438
Expenses		
Program	4,851,310	4,244,191
Administrative	1,393,337	1,276,079
Total Expenses	6,244,647	5,520,270
Change in Net Assets without Donor Restrictions	\$ 2,077,700	\$ (2,163,832)

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

Association of Arkansas Counties
 Statements of Net Assets
 For the Years Ended December 31, 2023 and 2022

	Net Assets w ithout Donor Restrictions		
	Designated for Capital Improvements	Undesignated Net Assets	Total Net Assets
Net Assets - January 1, 2022	\$ 4,301,055	\$ 13,282,451	\$ 17,583,506
Excess revenues over expenses	0	(2,163,832)	(2,163,832)
Amount designated for capital improvements	400,000	(400,000)	0
Net Assets - December 31, 2022	4,701,055	10,718,619	15,419,674
Excess expenses over revenues	0	2,077,700	2,077,700
Amount designated for capital improvements	500,000	(500,000)	0
Net Assets - December 31, 2023	\$ 5,201,055	\$ 12,296,319	\$ 17,497,374

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, 2023 and 2022

	2023			2022		
	Program	Administrative	Total	Program	Administrative	Total
Annual conference	\$ 346,024	\$ 0	\$ 346,024	\$ 291,656	\$ 0	\$ 291,656
Auto	0	6,506	6,506	0	1,969	1,969
ArkTRECS expense	70,582	0	70,582	0	0	0
ARP consultant	8,396	0	8,396	96,000	0	96,000
Board of Directors' expense	48,324	0	48,324	39,398	0	39,398
County Lines	47,919	0	47,919	40,222	0	40,222
County NACo dues	62,639	0	62,639	62,639	0	62,639
County Compliance Guide	0	0	0	38,758	0	38,758
Credit card fees	0	10,130	10,130	0	7,936	7,936
Depreciation	0	159,605	159,605	0	159,995	159,995
Dues and subscriptions	0	8,714	8,714	0	12,396	12,396
Fees NACo	224,589	0	224,589	0	0	0
Insurance - employees' group	273,143	72,608	345,751	228,739	60,804	289,543
Insurance - general	0	63,389	63,389	0	57,483	57,483
Legislative consultant	108,307	0	108,307	105,227	0	105,227
Legislative session	27,148	0	27,148	36,216	0	36,216
Maintenance and repairs	0	104,736	104,736	0	79,794	79,794
Meetings and conferences	48,066	0	48,066	60,547	0	60,547
Office and postage	66,839	17,767	84,606	67,726	18,003	85,729
Outside services	193,232	51,366	244,598	173,446	46,106	219,552
Personnel training	10,681	1,907	12,588	9,977	1,781	11,758
Printing	11,105	0	11,105	0	0	0
Professional services	0	19,856	19,856	0	18,631	18,631
Rental property	0	3,626	3,626	0	17,929	17,929
Retirement plan	395,325	105,087	500,412	350,388	93,141	443,529
Salaries	2,576,606	684,921	3,261,527	2,318,986	616,439	2,935,425
Scholarship fund donation	19,700	0	19,700	9,500	0	9,500
Service contracts - equipment	60,640	16,120	76,760	54,539	14,498	69,037
Special projects	0	0	0	33,486	8,901	42,387
Taxes - payroll	186,935	49,691	236,626	162,991	43,327	206,318
Taxes - property	7,198	1,914	9,112	6,886	1,830	8,716
Travel - staff	30,549	8,120	38,669	34,498	9,170	43,668
Utilities and telephone	27,363	7,274	34,637	22,366	5,946	28,312
Total Functional Expenses	\$ 4,851,310	\$ 1,393,337	\$ 6,244,647	\$ 4,244,191	\$ 1,276,079	\$ 5,520,270

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, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Cash received from members, rent, and benefit programs	\$ 7,452,362	\$ 5,980,133
Cash paid to suppliers and employees	(6,131,338)	(5,352,478)
Interest received	504,418	413,714
Net cash provided by (used in) operating activities	1,825,442	1,041,369
Cash Flows from Investing Activities		
Proceeds from sale or redemption of investments	0	500,000
Purchases of investments	0	(100,000)
Expenditures for property and equipment	(155,098)	(35,329)
Net cash provided by (used in) investing activities	(155,098)	364,671
Cash Flows from Financing Activities		
None	0	0
Net increase (decrease) in cash and cash equivalents	1,670,344	1,406,040
Cash and cash equivalents - beginning of year	2,460,142	1,054,102
Cash and Cash Equivalents - End of Year	\$ 4,130,486	\$ 2,460,142
Reconciliation of change in net assets to net cash provided by (used in) operating activities		
Change in net assets	\$ 2,077,700	\$ (2,163,832)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	159,605	159,995
Unrealized (gain) loss investments	(429,785)	3,277,960
Decrease (increase) in assets:		
Accounts receivable	64,218	(239,968)
Accrued interest receivable	0	(583)
Prepaid expenses	(13,896)	(20,495)
Increase (decrease) in liabilities:		
Accounts payable	(16,730)	(21,725)
Accrued expenses	(15,670)	50,017
Total adjustments	(252,258)	3,205,201
Net cash provided by (used in) operating activities	\$ 1,825,442	\$ 1,041,369

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

Note 1 - Nature of Operations

Organization. The Association of Arkansas Counties (AAC) was incorporated on 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 (see History of the Organization and Comments). AAC's primary source of revenue is administrative service fees from these Trusts.

Note 2 – Summary of Significant Accounting Policies

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, 2023 or 2022.

Reclassifications. Certain reclassifications have been made to the December 31, 2022, financial statements to conform to the December 31, 2023, 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, 2023 and 2022.

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. 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)

Accounts Receivable and Allowance for Credit Losses. Accounts receivable are stated at the amount AAC expects to collect. AAC maintains an allowance for estimated credit 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 and expected future 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, 2023 and 2022, 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. Furthermore, management does not believe that future economic trends and other quantitative factors will significantly impact accounts receivable.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 21, 2024, 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, 2023.

Note 3 – Investments – U.S. Government Securities

Investments in U.S. Government securities held as of December 31, 2023 and 2022, had interest rates ranging from 2% to 6.05%. The following is a summary of securities with current and long-term maturities:

	2023	2022
Current	\$ 0	\$ 0
Long-term	9,932,883	9,503,099
Total U.S. Government Securities	\$ 9,932,883	\$ 9,503,099

The balance of the U.S. Government securities includes cumulative market value decreases of \$2,735,469 and \$3,165,253 as of December 31, 2023 and 2022, respectively. For the years ended December 31, 2023 and 2022, the Statements of Activities include market value adjustments of \$429,785 and (\$3,277,960), respectively. Investments in U.S. Government securities are not subject to Federal Deposit Insurance Corporation (FDIC) insurance or collateralization.

Subsequent to December 31, 2023, the bond interest rate market has experienced changes. As of September 30, 2024, AAC's market value of U.S. Government securities have increased by 3.49% or \$347,143. 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 4 – Property and Equipment

	Cost	Accumulated Depreciation	Net Book Value
December 31, 2023			
Land	\$ 1,074,784	\$ 0	\$ 1,074,784
Furniture and equipment	225,304	213,916	11,388
Buildings and improvements	4,107,300	2,278,176	1,829,124
Vehicles	76,885	45,251	31,634
Website and technology	501,640	369,792	131,848
Total Property and Equipment	\$ 5,985,913	\$ 2,907,135	\$ 3,078,778
December 31, 2022			
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
Total Property and Equipment	\$ 5,829,983	\$ 2,746,699	\$ 3,083,284

Depreciation and amortization expense charged against income for the years ended December 31, 2023 and 2022, was \$159,605 and \$159,995, respectively. Included in the property and equipment totals above are the underlying assets for operating leases as described in Note 8.

Note 5 – 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, 2023 and 2022. 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	
December 31, 2023					
Total Cash Deposits	\$ 4,132,031	\$ 250,000	\$ 3,882,031	\$ 0	\$ 4,132,031
December 31, 2022					
Total Cash Deposits	\$ 2,570,997	\$ 250,000	\$ 2,320,997	\$ 0	\$ 2,570,997

AAC’s cash balances fluctuate during the year and at times exceed the \$250,000 federally insured limit. As of December 31, 2023 and 2022, there were no cash deposits which were not insured or collateralized.

Note 6 – 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 7 – Employees’ Retirement Plans

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, 2023 and 2022, 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%. The required contribution percentage increased to 5.25% effective July 1, 2022 and to 5.50% effective July 1, 2023. AAC’s contribution to APERS for the years ended December 31, 2023 and 2022, was \$500,412 and \$443,529, respectively.

Note 8 – Operating Leases

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. Lease payments received on this property totaled \$35,340 and \$35,280 for the years ended December 31, 2023 and 2022, 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 for each of the years ended December 31, 2023 and 2022.

Note 8 – Operating Leases (continued)

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, 2023 and 2022.

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

	Cost	Accumulated Depreciation	Net Book Value
December 31, 2023			
Land	\$ 510,305	\$ 0	\$ 510,305
Buildings	403,599	(335,108)	68,491
Total Leased Assets	\$ 913,904	\$ (335,108)	\$ 578,796
December 31, 2022			
Land	\$ 510,305	\$ 0	\$ 510,305
Buildings and improvements	403,599	(330,946)	72,653
Total Leased Assets	\$ 913,904	\$ (330,946)	\$ 582,958

Note 9 – Designated Net Assets

During the years ended December 31, 2023 and 2022, the Board of Directors of AAC voted to set aside and designate \$500,000 and \$400,000, respectively, for the purpose of capital improvements. These funds are considered designated net assets until disbursed. Total designated funds available for capital improvements are \$5,201,055 and \$4,701,055 for the years ended December 31, 2023 and 2022, respectively.

Note 10 – Service Fees – Benefit Programs

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, 2023 and 2022, total fees paid or payable to AAC from WCT were \$1,520,524 and \$1,461,761, respectively. Fees for services due back to WCT from AAC were \$8,008 and \$29,619 as of December 31, 2023 and 2022, respectively.

AAC also received administrative service fees from RMF in the amount of \$3,302,552 and \$2,898,151 for the years ended December 31, 2023 and 2022, respectively. Fees for services due back to RMF from AAC were \$96,083 and \$82,325 as of December 31, 2023 and 2022, respectively.

Note 11 – Restricted Assets and Liabilities – Automated Records Systems Trust

During the 2007, regular session of the 86th 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:

	2023	2022
ARST Income		
Fees collected and accrued	\$ 288,955	\$ 355,242
Investment income	8,876	586
Total ARST Income	<u>297,831</u>	<u>355,828</u>
ARST Expenditures		
Grants awarded to Class 1 - Class 5 counties	542,518	137,588
Total ARST Expenditures	<u>542,518</u>	<u>137,588</u>
Excess Revenues (Expenditures) - Restricted for ARST's Purposes	(244,687)	218,240
ARST Fund Balance - Beginning of Year	354,427	136,187
ARST Fund Balance - End of Year	<u>\$ 109,740</u>	<u>\$ 354,427</u>
Restricted Assets of ARST		
Cash in bank	\$ 88,519	\$ 326,722
Accounts receivable	21,221	27,705
Net Restricted Assets	<u>\$ 109,740</u>	<u>\$ 354,427</u>

Note 12 – Fair Value of Financial Instruments

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 12 – 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, 2023 and 2022, segregated among the appropriate levels within the fair value hierarchy:

Description	Fair Value	Fair Value Using		
		Level 1	Level 2	Level 3
December 31, 2023				
U.S. Government securities	\$ 9,932,883	\$ 9,932,883	\$ 0	\$ 0
December 31, 2022				
U.S. Government securities	\$ 9,503,099	\$ 9,503,099	\$ 0	\$ 0

Note 13 – Liquidity and Availability

As of December 31, 2023, AAC had working capital of \$4,485,713 and average days (based on normal expenditures) cash on hand of 241 days.

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

	December 31, 2023
Financial assets at year end:	
Cash and cash equivalents	\$ 4,130,486
Investments - U.S. Government securities	9,932,883
Receivables	345,785
Total Financial Assets	<u>14,409,154</u>
Less amounts not available to be used within one year:	
Designated for capital improvements	<u>5,201,055</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 9,208,099</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, 2023, 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 2023 and 2022. The schedules, as listed in the table of contents, show the amount paid by each County to AAC for the years ended December 31, 2023 and 2022.

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, 2023

	Actual	Budget	Favorable (Unfavorable)
Revenues:			
Members' dues	\$ 214,288	\$ 214,288	\$ 0
Service fees - benefit programs	4,825,283	4,718,707	106,576
Annual conference	275,100	254,000	21,100
Clearinghouse	180,175	0	180,175
Letter service	119,010	0	119,010
County Compliance Guides	42,900	56,000	(13,100)
County Officials' Directory	13,210	8,000	5,210
Drug and alcohol testing	5,652	6,000	(348)
Investment income	504,418	400,000	104,418
Lease income	81,010	80,900	110
Continuing education fees	42,000	42,000	0
Legal reimbursements	1,189,348	1,148,098	41,250
Opioid litigation revenue	384,431	300,000	(84,431)
Other income	15,140	28,400	(13,260)
Total Revenues	7,891,965	7,256,393	466,710
Expenses and Fixed Asset Purchases:			
Annual conference	346,024	300,000	(46,024)
ArkTRECS program expense	70,582	0	(70,582)
ARP consultant	8,396	24,000	15,604
Auto	6,506	10,000	3,494
Auto insurance	7,906	7,420	(486)
Bank charges	2,200	2,750	550
Board of directors' expense	48,324	55,000	6,676
Contract labor	0	10,000	10,000
County NACo dues	62,639	62,639	0
County Lines	47,919	42,500	(5,419)
Directory printing	11,105	0	(11,105)
Dues and subscriptions	8,714	10,000	1,286
Insurance - property	19,067	19,000	(67)
Insurance - dental	16,008	16,000	(8)
Insurance - vision	3,412	3,400	(12)
Insurance - employees' group	305,917	305,000	(917)
Insurance - directors' and officers' bonds	11,651	13,000	1,349
Janitorial service	11,924	15,200	3,276
Lawyers' professional liability insurance	16,494	16,494	0
Legal fees	2,205	5,000	2,795
Legislative consultant	105,000	105,000	0
Legislative consultant expense	3,307	10,000	6,693
Legislative session	27,148	50,000	22,852
Maintenance and repairs	104,736	110,000	5,264
Subtotal of Expenses and Fixed Asset Purchases	\$ 1,247,184	\$ 1,192,403	\$ (54,781)

Association of Arkansas Counties
Schedule of Revenues, Expenses, and Fixed Asset Purchases (continued)
Actual to Budget
For the Year Ended December 31, 2023

	Actual	Budget	Favorable (Unfavorable)
Expenses and Fixed Asset Purchases: (continued)			
Sub-total from previous page	\$ 1,247,184	\$ 1,192,403	\$ (54,781)
NACo fees	224,589	0	(224,589)
NACo summer conference	30,849	45,000	14,151
NCCAE meeting	17,217	18,000	783
Miscellaneous	12,186	9,000	(3,186)
Merchange discount fees	7,930	6,500	(1,430)
Long/short-term disability	20,414	19,750	(664)
Postage	24,006	27,500	3,494
Networking services	34,745	40,000	5,255
Office and printing	51,845	47,000	(4,845)
Outside services	46,900	46,900	0
Personnel training	12,588	15,000	2,412
Professional services	17,651	14,250	(3,401)
Rental property	3,626	15,000	11,374
Retirement plan	500,412	502,300	1,888
Salaries	3,261,527	3,278,695	17,168
Scholarship fund donation	19,700	20,000	300
Service contracts - equipment	76,760	75,000	(1,760)
Special projects	0	60,000	60,000
Systems software/support	151,029	130,000	(21,029)
Taxes - payroll	236,626	240,245	3,619
Taxes - property	9,112	8,800	(312)
Travel - staff	38,669	50,000	11,331
Utilities	34,637	30,000	(4,637)
Workers' compensation insurance	4,840	5,000	160
Capital Items:			
Board designated - capital fund improveme	500,000	500,000	0
Total Expenses and Fixed Asset Purchases	6,585,042	6,396,343	(188,699)
Excess Revenues Over Expenses and Fixed Asset Purchases	\$ 1,306,923	\$ 860,050	\$ 446,873

Amounts in the actual column do not include unbudgeted items as follows: depreciation expense of \$159,605; unrealized gain on investments of \$429,785.

Association of Arkansas Counties
Schedules of Cash and Investments
For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash and Investments		
Cash and Cash Equivalents:		
Petty cash on hand	\$ 100	\$ 100
Bank OZK	4,130,386	2,460,042
Government Bonds:		
<i>Held in -</i>		
Raymond James	8,818,125	8,439,281
Crews & Associates	1,114,758	1,063,818
Total Cash and Investments	\$ 14,063,369	\$ 11,963,241

Association of Arkansas Counties
Schedules of Members' Dues by County
For the Years Ended December 31, 2023 and 2022

County	2023	2022	County	2023	2022	County	2023	2022
Arkansas	\$ 2,448	\$ 2,448	Garland	\$ 3,925	\$ 3,925	Newton	\$ 2,271	\$ 2,271
Ashley	2,482	2,482	Grant	2,462	2,462	Ouachita	2,546	2,546
Baxter	2,883	2,883	Greene	2,956	2,956	Perry	2,321	2,321
Benton	7,201	7,201	Hempstead	2,500	2,500	Phillips	2,438	2,438
Boone	2,808	2,808	Hot Spring	2,731	2,731	Pike	2,324	2,324
Bradley	2,330	2,330	Howard	2,370	2,370	Poinsett	2,551	2,551
Calhoun	2,227	2,227	Independence	2,818	2,818	Polk	2,485	2,485
Carroll	2,646	2,646	Izard	2,384	2,384	Pope	3,270	3,270
Chicot	2,324	2,324	Jackson	2,441	2,441	Prairie	2,290	2,290
Clark	2,524	2,524	Jefferson	3,339	3,339	Pulaski	9,243	9,243
Clay	2,402	2,402	Johnson	2,601	2,601	Randolph	2,473	2,473
Cleburne	2,582	2,582	Lafayette	2,255	2,255	Saline	4,338	4,338
Cleveland	2,277	2,277	Lawrence	2,431	2,431	Scott	2,318	2,318
Columbia	2,548	2,548	Lee	2,296	2,296	Searcy	2,282	2,282
Conway	2,511	2,511	Lincoln	2,373	2,373	Sebastian	4,416	4,416
Craighead	4,122	4,122	Little River	2,357	2,357	Sevier	2,425	2,425
Crawford	3,213	3,213	Logan	2,519	2,519	Sharp	2,450	2,450
Crittenden	3,000	3,000	Lonoke	3,460	3,460	St. Francis	2,554	2,554
Cross	2,442	2,442	Madison	2,437	2,437	Stone	2,363	2,363
Dallas	2,258	2,258	Marion	2,442	2,442	Union	2,838	2,838
Desha	2,346	2,346	Miller	2,901	2,901	Van Buren	2,424	2,424
Drew	2,452	2,452	Mississippi	2,867	2,867	Washington	6,517	6,517
Faulkner	4,340	4,340	Monroe	2,264	2,264	White	3,509	3,509
Franklin	2,447	2,447	Montgomery	2,294	2,294	Woodruff	2,254	2,254
Fulton	2,358	2,358	Nevada	2,291	2,291	Yell	2,503	2,503
Total Members' Dues by County							\$ 214,288	\$ 214,288