Kentucky Association of Counties, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2011 and 2010

Kentucky Association of Counties, Inc. and Subsidiary

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June 30, 2011 and 2010

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Independent Auditor's Report on Financial Statements

To the Board of Directors
Kentucky Association of Counties, Inc. and Subsidiary

We have audited the accompanying consolidated statements of financial position of Kentucky Association of Counties, Inc. and Subsidiary ("the Organization") as of June 30, 2011 and 2010 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Association of Counties, Inc. and Subsidiary as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information on pages 16-19 is presented for the purpose of additional analysis and is not a required part of the basic consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

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September 20, 2011

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Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 5,260,648	$ 6,128,430
Accounts receivable	77,737	19,919
Due from related parties	291,451	100,721
Assets held for sale	927,140	927,140
Prepaid expenses	37,844	59,425
Total Current Assets	6,594,820	7,235,635
Property and Equipment, net	12,701,597	13,591,099
Deferred Tax Asset	46	18,182
Restricted Cash	5,999	351,312
Total Assets	$ 19,302,462	$ 21,196,228
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 132,842	$ 752,660
Accrued compensated absences	321,974	260,856
Accrued income taxes	16,443	-
Unearned revenues	843,648	1,036,402
Current portion of capital lease obligations	22,809	22,667
Current portion of related party loan	479,893	460,000
Total Current Liabilities	1,817,609	2,532,585
Capital Lease Obligations, net of current portion	26,629	49,438
Related Party Loan, net of current portion	8,452,475	10,445,000
Total Liabilities	10,296,713	13,027,023
Net Assets		
Unrestricted		
Board designated - program guarantee fund	500,000	250,000
Undesignated	8,083,540	7,496,996
Total Unrestricted	8,583,540	7,746,996
Temporarily restricted	422,209	422,209
Total Net Assets	9,005,749	8,169,205
Total Liabilities and Net Assets	$ 19,302,462	$ 21,196,228

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	2011			**2010**		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Program administration fees	$ 3,816,661	$ -	$ 3,816,661	$ 4,026,030	$ -	$ 4,026,030
Management fees	2,712,357	-	2,712,357	2,555,073	-	2,555,073
License fees	5,000	-	5,000	5,000	-	5,000
Public official bond revenue	377,719	-	377,719	355,459	-	355,459
Commissions - other	621,598	-	621,598	599,260	-	599,260
Membership dues	152,950	-	152,950	153,900	-	153,900
Training session fees	40,820	-	40,820	36,760	-	36,760
Interest income	90,468	-	90,468	153,363	-	153,363
Rental income	35,610	-	35,610	10,315	-	10,315
Endorsement and marketing fees	77,687	-	77,687	63,694	-	63,694
KACo convention, net	19,626	-	19,626	7,642	-	7,642
Gain on disposal of fixed assets	4,000	-	4,000	-	-	-
Miscellaneous	508	-	508	10,784	-	10,784
	7,955,004	-	7,955,004	7,977,280	-	7,977,280
Expenses						
Program services	4,860,637	-	4,860,637	4,534,427	-	4,534,427
Supporting services	2,177,884	-	2,177,884	2,024,672	-	2,024,672
Interest expense	4,439	-	4,439	71,207	-	71,207
Provision (benefit) for income taxes	75,500	-	75,500	(18,182)	-	(18,182)
	7,118,460	-	7,118,460	6,612,124	-	6,612,124
Changes in Net Assets	836,544	-	836,544	1,365,156	-	1,365,156
Net Assets at Beginning of Year	7,746,996	422,209	8,169,205	6,381,840	422,209	6,804,049
Net Assets at End of Year	$ 8,583,540	$ 422,209	$ 9,005,749	$ 7,746,996	$ 422,209	$ 8,169,205

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Changes in net assets	$ 836,544	$ 1,365,156
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Benefit from deferred income taxes	18,136	(18,182)
Bad debt expense	100,721	1,577
Depreciation	757,843	294,746
(Gain) loss on sale of property and equipment	(4,000)	14,668
Changes in:		
Accounts receivable	(57,818)	18,980
Due from related parties	(291,451)	313,401
Prepaid expenses	21,581	15,220
Accounts payable and accrued liabilities	(16,339)	(67,487)
Accrued compensated absences	61,118	39,517
Unearned revenues	(192,754)	(1,814)
Net Cash Provided by Operating Activities	1,233,581	1,975,782
Cash Flows from Investing Activities		
Purchases of property and equipment	(455,377)	(6,177,353)
Proceeds from sale of property and equipment	4,000	-
Decrease in restricted cash	345,313	8,109,825
Net Cash (Used) Provided by Investing Activities	(106,064)	1,932,472
Cash Flows from Financing Activities		
Payments on capital lease obligation	(22,667)	(1,885)
Principal payments on related party loan	(1,972,632)	(660,000)
Net Cash Used by Financing Activities	(1,995,299)	(661,885)
(Decrease) Increase in Cash and Cash Equivalents	(867,782)	3,246,369
Cash and Cash Equivalents at Beginning of Year	6,128,430	2,882,061
Cash and Cash Equivalents at End of Year	$ 5,260,648	$ 6,128,430

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Cash Flows (Continued)
June 30, 2011 and 2010

	2011	2010
Supplemental disclosure:		
Cash paid for interest, net of amounts capitalized of $- and $293,366 at June 30, 2011 and 2010, respectively	$ 60,885	$ 71,085
Non-cash transaction:		
Purchases of property and equipment included in accounts payable	$ 57,935	$ 644,971
Equipment acquired through capital lease	-	73,990

See accompanying notes.

Note A - Description of Organization

Kentucky Association of Counties, Inc. ("KACo") is a non-profit organization organized under the laws of the Commonwealth of Kentucky. Its membership is the 120 county governments of the state. KACo was formed to improve and enhance county governments and their political subdivisions through educational programs, cooperative undertakings and issue advocacy. The consolidated financial statements include the accounts of KACo and its wholly owned subsidiary, KACo Insurance Agency, Inc. ("the Agency"), incorporated for the purpose of selling insurance products to county governments in Kentucky. All inter-company transactions have been eliminated. The consolidated entity is collectively referred to herein as "the Organization".

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting: The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting. The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole authoritative GAAP for non-governmental entities. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

   Under the ASC, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

   The Organization reports cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restriction.

   Permanently restricted net assets include those contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization.

   There are no donor-imposed permanent restrictions on the net assets of the Organization.

2. Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

3. Cash and Cash Equivalents: The Organization considers all highly liquid investments, with a maturity of 90 days or less when purchased, not restricted for a particular purpose, to be cash equivalents. The Organization typically maintains with its bank cash and cash equivalents in excess of federally-insured limits.

Note B - Summary of Significant Accounting Policies (Continued)

4. Fair Value Measurements: The ASC has defined fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization uses the following fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels in accordance with the ASC. These levels, in order of highest to lowest priority, are described below:

   Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

   Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

   Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Company's own assumptions.

   The Organization's fair value measurements are based on quoted prices in active markets for identical assets (Level 1). The Organization believes that the carrying amount reported on the consolidated statements of financial position for money market funds included in cash and cash equivalents approximates fair value.

5. Accounts Receivable: Accounts receivable consists primarily of commissions from insurance policies and membership fees due from different counties that are predetermined amounts based on the size of the county. The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Receivables are written-off based on individual credit evaluation and specific circumstances of the client. The Organization's management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established at June 30, 2011 and 2010. At June 30, 2011 and 2010, one insurance company represented 59% and 66% of accounts receivable, respectively.

6. Property and Equipment: Property and equipment is recorded at cost if purchased or fair market value at date of contribution, if contributed. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	10 - 40 years
Furniture, fixtures and equipment	3 - 7 years
Vehicles	5 Years

   Depreciation expense during the years ended June 30, 2011 and 2010 was $757,843 and $294,746, respectively.

7. Assets Held for Sale: Certain properties consisting of the old buildings in which the KACo and affiliates offices were previously located are no longer in use and are held for sale as of June 30, 2011. These assets are shown at the lower of their net book value or fair value less cost to sell.

Note B - Summary of Significant Accounting Policies (Continued)

8. Unearned Revenues: Unearned revenues include amounts received from related parties for the purchase of jointly used office space and equipment and amounts received from related parties for administrative expenses and services of KACo on behalf of the related parties. Unearned amounts for space and equipment are being amortized over the estimated useful lives of the assets, and are recognized as program administration fees within the consolidated statement of activities and changes in net assets. Unearned revenues for program administration fees represent annual fees generated in excess of related expenses and will be recognized as income in the following year. Total deferred amounts from related parties are $800,379 and $985,077 at June 30, 2011 and 2010, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year end of $43,269 and $51,325 at June 30, 2011 and 2010, respectively.

9. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled $81,229 and $71,573 in 2011 and 2010, respectively.

10. Income Taxes: Kentucky Association of Counties, Inc. is a non-profit corporation under the laws of the Commonwealth of Kentucky and has been granted exemption from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. KACo Insurance Agency, Inc. is a for-profit corporation subject to income tax.

    Deferred income taxes are recorded based upon the temporary differences between the financial statement and tax bases of assets and liabilities and net operating loss carryforwards available for tax purposes.

    The FASB issued standards, contained in the ASC, clarifying the accounting for uncertainty in income taxes recognized in annual financial statements. These standards require recognition and measurement of uncertain income tax position using a "more-likely-than-not" approach. The standards also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Organization has determined that no material adjustment for income tax uncertainties or unrecognized tax benefits is required.

11. Reclassifications: Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation.

12. Subsequent Events: Subsequent events for the Organization have been considered through the date of the Independent Auditor's Report, which represents the date which the consolidated financial statements were available to be issued.

Note C - Property and Equipment

Property and equipment as of June 30, 2011 and 2010 consists of:

	2011	2010
Land and improvements	$ 1,515,315	$ 1,515,315
Building and improvements	11,596,882	11,789,778
Furniture and fixtures	114,601	112,733
Equipment	1,205,912	1,179,410
Vehicles	214,582	216,572
	14,647,292	14,813,808
Less accumulated depreciation	(1,945,695)	(1,222,709)
	$ 12,701,597	$ 13,591,099

Note D - Restricted Cash

Pursuant to the Construction Loan (see Note F), the Organization established a separate bank account to deposit the proceeds. These funds are restricted for the cost of construction of KACo's new building. As of June 30, 2011 and 2010, the balance of the restricted cash is $5,999 and $351,312, respectively.

Note E - Capital Lease Obligations

The Organization is the lessee of office equipment under capital leases expiring in fiscal year 2014. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for the years ended June 30, 2011 and 2010. The following table is a summary of office equipment held under capital leases:

Capitalized value of two network copiers under a capital lease obligation payable in monthly installments of $955, including interest of 5%, through September 2013.	$ 73,990
Accumulated amortization	(17,264)
	$ 56,726

Note E - Capital Lease Obligations (Continued)

Minimum future lease payments under capital leases as of June 30, 2011:

Year Ending June 30,	Amount
2012	$ 22,926
2013	22,926
2014	3,819
	49,671
Less amount representing interest	(233)
Present value of net minimum lease payments	49,438
Less current portion	(22,809)
	$ 26,629

Interest rates on capitalized leases are imputed based on the lower of the Organization's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Note F - Related Party Loan

On June 1, 2008, through the County of Christian, Kentucky, the Kentucky Association of Counties Leasing Trust ("COLT"), a related party, issued $30,000,000 of bonds ("the Bonds"). During 2009, KACo obtained a loan through COLT from the Bond proceeds in the amount of $12,000,000 for the purpose of financing the construction of a new building to be used by KACo ("Construction Loan"). Principal is payable annually in the amounts as defined in the agreement. KACo pays to COLT monthly interest payments at a fixed rate of 3.35% plus an additional variable rate, if necessary, up to 2.9%. These principal and interest payments ("Loan Payments") are made directly to US Bank on behalf of COLT as a portion of the principal and interest payments owed on the Bonds. KACo is eligible for a discretionary interest rebate from COLT on an annual basis. Average interest rates paid, net of rebates received, for the years ended June 30, 2011 and 2010, were 0.61% and 0.45%, respectively. The balance outstanding on the loan was $8,932,368 and $10,905,000 at June 30, 2011 and 2010, respectively.

Substantially all assets of the trust estate, which are owned by COLT and maintained by US Bank, are pledged to secure repayment of the Bonds, which in turn secure the Loan Payments owed by KACo. The Construction Loan matures on January 20, 2028.

As a result of this debt arrangement, KACo is required to maintain certain financial ratios with US Bank. KACo was in compliance with all loan covenants at June 30, 2011 and 2010.

Note F - Related Party Loan (Continued)

Principal payments due on long-term debt for the fiscal years subsequent to June 30, 2011 are as follows:

Fiscal Year Ending June 30,		
2012	$	479,893
2013		490,000
2014		510,000
2015		525,000
2016		540,000
Thereafter		6,387,475
	$	8,932,368

Note G - Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 are restricted for future unexpected expenses of the related organizations, also referred to as the program guarantee fund.

Board designated net assets at June 30, 2011 and 2010 represent amounts designated by the Board for the program guarantee fund.

Total net assets set aside for the program guarantee fund are $922,209 and $672,209 as of June 30, 2011 and 2010, respectively.

Note H - Retirement Plans

The Organization participates in the County Employee Retirement System of the Commonwealth of Kentucky ("CERS"). CERS is a cost-sharing multiple-employer public employee retirement system which covers all eligible full-time employees. Vesting begins after five years upon entry into CERS. CERS also provides death and disability benefits. Benefits are established by state statute. CERS requires employees to contribute 5% of their salary and employers to contribute 16.93% and 16.16% of participants' salaries during the years ended June 30, 2011 and 2010, respectively. The Organization's CERS expenses for the years ended June 30, 2011 and 2010 were $538,922 and $500,734, respectively.

The Organization also sponsors a 401(k) defined contribution plan ("the Plan"). The Plan covers substantially all full-time employees. Matching contributions are made to the Plan by the Organization at 100% of the first 6% contributed by participants. The Organization's matching contribution to the Plan was $225,016 and $245,462 for the years ended June 30, 2011 and 2010, respectively.

Note I - Related Party Transactions

Insurance and other financial services are provided to KACo members by related organizations governed by separate boards. The transactions and accounts of the related entities are not included in these financial statements. The related entities are as follows:

1. The Kentucky Association of Counties All Lines Fund ("KALF") is a property, casualty and liability self-insurance program organized pursuant to state law and provides insurance, other than workers' compensation, to Kentucky counties and other political subdivisions.

2. The Kentucky Association of Counties Workers' Compensation Fund ("KWC") provides workers' compensation and employers' liability coverage to Kentucky counties and other political subdivisions pursuant to state law.

3. The Kentucky Association of Counties Unemployment Insurance Fund ("KUI") operates as a pooled reimbursing unemployment insurance program that allows Kentucky county governments to meet their statutory obligation to provide unemployment insurance benefits to their employees.

4. The Kentucky Association of Counties Leasing Trust ("COLT") is an inter-local agreement trust that was formed to make funds available for capital improvement projects and equipment purchases by Kentucky county governments and specific districts.

5. The Kentucky Association of Counties Commonwealth Insurance Company ("CIC") was established to provide employee dishonesty fidelity bond coverage to the participant members of KALF.

KACo charges its affiliates a flat program administration fee. This fee covers all expenses which had formerly been directly allocated in an itemized fashion to the affiliates. The program administration fee, which is determined annually, is due ratably to KACo at the beginning of each quarter. Such fees are summarized as follows:

	2011	2010
KACo All Lines Fund	$ 1,260,164	$ 1,347,372
KACo Workers' Compensation Fund	1,132,858	1,187,737
KACo Unemployment Insurance Fund	340,239	374,566
KACo Leasing Trust	862,431	850,079
KACo Insurance Agency, Inc.	77,517	164,292
KACo Commonwealth Insurance Company	54,471	82,493
Amount related to joint use of office space and equipment (Note B 8)	180,338	198,401
	3,908,018	4,204,940
Elimination of KACo Insurance Agency, Inc.	(91,357)	(178,910)
	$ 3,816,661	$ 4,026,030

Note I - Related Party Transactions (Continued)

These separately established entities pay fees to KACo from the fees charged to the programs' participant members which are reflected in the consolidated statement of activities as management fees and license fees. The management fees are summarized as follows:

	2011	2010
KACo All Lines Fund	$ 942,428	$ 853,049
KACo Workers' Compensation Fund	931,013	857,998
KACo Unemployment Insurance Fund	248,350	261,100
KACo Leasing Trust	394,350	421,800
KACo Insurance Agency, Inc.	158,100	138,200
KACo Commonwealth Insurance Company	196,216	161,126
	2,870,457	2,693,273
Elimination of KACo Insurance Agency, Inc.	(158,100)	(138,200)
	$ 2,712,357	$ 2,555,073

The license fees are summarized as follows:

	2011	2010
KACo All Lines Fund	$ 1,000	$ 1,000
KACo Workers' Compensation Fund	1,000	1,000
KACo Unemployment Insurance Fund	1,000	1,000
KACo Leasing Trust	1,000	1,000
KACo Insurance Agency, Inc.	1,000	1,000
KACo Commonwealth Insurance Company	1,000	1,000
	6,000	6,000
Elimination of KACo Insurance Agency, Inc.	(1,000)	(1,000)
	$ 5,000	$ 5,000

A summary of all amounts due the Organization by related parties is as follows:

	2011	2010
KACo Leasing Trust	$ 291,451	$ 100,721

Note I - Related Party Transactions (Continued)

A summary of unearned revenues from the overpayment of license, management and program administrative fees is as follows:

	2011	2010
Program Administrative Fee		
KACo All Lines Fund	$ 166,836	$ 153,724
KACo Workers' Compensation Fund	189,442	182,009
KACo Unemployment Insurance Fund	84,962	25,630
KACo Leasing Trust	101,669	190,441
KACo Insurance Agency, Inc.	51,883	27,104
KACo Commonwealth Insurance Company	12,598	21,903
Amount related to joint use of office space and equipment	258,597	438,935
	865,987	1,039,746
Elimination of KACo Insurance Agency, Inc.	(65,608)	(54,669)
	$ 800,379	$ 985,077

Most of the Organization's insurance is provided by KALF and KWC. During 2011 and 2010, the Organization incurred total insurance expense under these agreements of $85,595 and $81,921, respectively.

Note J - KACo Convention

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2011 and 2010 were as follows:

	2011	2010
Convention Income		
Convention registration	$ 135,270	$ 128,995
Convention exhibitors	37,600	35,813
Convention sponsors	64,300	69,900
	237,170	234,708
Convention Expenses	217,544	227,066
	$ 19,626	$ 7,642

Note K - Commitments and Contingencies

The Organization is, from time to time, involved in lawsuits arising in the ordinary course of its business that, in the opinion of management, will not have a material effect on the Organization's financial position, liquidity or results of operations.

Note L - Income Taxes

KIA recognizes deferred tax assets and liabilities for the expected future tax consequence of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse:

The provision (benefit) for income taxes consists of the following:

	2011	2010
Current:		
Federal	$ 49,569	$ -
State and local	7,795	-
	57,364	-
Deferred:		
Federal	15,783	(15,783)
State and local	2,353	(2,399)
	18,136	(18,182)
Income Tax (Benefit) Expense	$ 75,500	$ (18,182)

Significant components of KIA's net deferred tax asset consist of the following at year-end:

	2011	2010
Deferred tax asset		
Charitable contributions	$ 46	$ 7,354
Net operating losses	-	10,828
Net deferred tax asset	$ 46	$ 18,182

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Management believes the existing net deductible temporary differences will reverse during the periods in which KIA generates net taxable income. Based on this belief and KIA's expectations for the future, management believes it is more likely than not that KIA will realize its deferred tax assets. As a result, no valuation allowance was recorded as of June 30, 2011.

Supplementary Information

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Schedules of Program and Supporting Services
Years Ended June 30, 2011 and 2010

	2011	2010
Bad debt	$ 100,721	$ 1,577
Bank charges	3,316	2,405
Board expense	7,349	9,795
Commissions	42,485	38,264
Communication, promotion and liaison	270,768	297,334
Computer supplies	85,190	57,030
Depreciation	757,843	294,746
Endorsement fee	26,925	35,860
Equipment and maintenance	39,490	132,101
Fringe benefits	1,430,791	1,355,629
Grounds and building maintenance	59,606	41,812
Insurance	83,256	75,938
Janitorial service	44,762	26,627
Miscellaneous	28,215	53,732
Office supplies	28,754	24,483
Postage	19,569	23,015
Premiums ceded	93,792	59,892
Printing	22,391	38,630
Professional dues	5,127	5,544
Professional fees	147,141	357,517
Public official bond expense	368,270	348,980
Publications	7,117	7,429
Salaries	3,211,003	3,094,349
Telephone	55,690	77,190
Training session expenses	28,419	31,699
Utilities	70,531	67,521
	$ 7,038,521	$ 6,559,099

See independent auditor's report.

Consolidating Information

Kentucky Association of Counties, Inc. and Subsidiary
Consolidating Statement of Financial Position
June 30, 2011

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	$ 4,768,973	$ 491,675	$ -	$ 5,260,648
Accounts receivable	14,492	63,245	-	77,737
Due from related parties	291,451	-	-	291,451
Assets held for sale	927,140	-	-	927,140
Prepaid expenses	37,844	65,608	(65,608)	37,844
Total Current Assets	6,039,900	620,528	(65,608)	6,594,820
Property and Equipment, net	12,701,597	-	-	12,701,597
Deferred Tax Asset	-	46	-	46
Restricted Cash	5,999	-	-	5,999
Total Assets	$ 18,747,496	$ 620,574	$ (65,608)	$ 19,302,462
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued liabilities	$ 83,647	$ 49,195	$ -	$ 132,842
Accrued compensated absences	321,974	-	-	321,974
Accrued income taxes	-	16,443	-	16,443
Unearned revenues	865,987	43,269	(65,608)	843,648
Current portion of capital lease obligations	22,809	-	-	22,809
Current portion of related party loan	479,893	-	-	479,893
Total Current Liabilities	1,774,310	108,907	(65,608)	1,817,609
Capital Lease Obligations, net of current portion	26,629	-	-	26,629
Related Party Loan, net of current portion	8,452,475	-	-	8,452,475
Total Liabilities	10,253,414	108,907	(65,608)	10,296,713
Commitments and Contingencies				
Net Assets/Equity				
Unrestricted				
Board designated - program guarantee fund	500,000	-	-	500,000
Undesignated	7,571,873	-	-	7,571,873
Total Unrestricted	8,071,873	-	-	8,071,873
Temporarily restricted	422,209	-	-	422,209
Retained earnings	-	511,667	-	511,667
Total Net Assets/Equity	8,494,082	511,667	-	9,005,749
Total Liabilities and Net Assets	$ 18,747,496	$ 620,574	$ (65,608)	$ 19,302,462

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidating Statement of Unrestricted Activities
and Changes in Unrestricted Net Assets
Year Ended June 30, 2011

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Changes in unrestricted net assets				
Revenues, gains and other support				
Program administration fees	$ 3,908,018	$ -	$ (91,357)	$ 3,816,661
Management fees	2,870,457	-	(158,100)	2,712,357
License fees	6,000	-	(1,000)	5,000
Public official bond revenue	-	377,719	-	377,719
Commissions - other	-	621,598	-	621,598
Membership dues	152,950	-	-	152,950
Training session fees	40,820	-	-	40,820
Interest income	89,447	1,021	-	90,468
Rental income	35,610	-	-	35,610
Endorsement and marketing fees	77,687	-	-	77,687
KACo convention, net	19,626	-	-	19,626
Gain on disposal of fixed assets	4,000	-	-	4,000
Miscellaneous	508	-	-	508
	7,205,123	1,000,338	(250,457)	7,955,004
Expenses				
Program services	4,860,637	-	-	4,860,637
Supporting services	1,620,213	808,128	(250,457)	2,177,884
Interest expense	4,439	-	-	4,439
Provision for income taxes	-	75,500	-	75,500
	6,485,289	883,628	(250,457)	7,118,460
Increase in Unrestricted Net Assets	719,834	116,710	-	836,544
Unrestricted Net Assets at Beginning of Year	7,352,039	394,957	-	7,746,996
Unrestricted Net Assets at End of Year	$ 8,071,873	$ 511,667	$ -	$ 8,583,540

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidating Schedule of Program and Supporting Services
Year Ended June 30, 2011

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Bad debt	$ 100,721	$ -	$ -	$ 100,721
Bank charges	3,316	-	-	3,316
Board expense	-	7,349	-	7,349
Commissions	-	42,485	-	42,485
Communication, promotion and liaison	267,968	2,800	-	270,768
Computer supplies	85,190	-	-	85,190
Depreciation	757,843	-	-	757,843
Endorsement fee	-	26,925	-	26,925
Equipment and maintenance	39,490	-	-	39,490
Fringe benefits	1,430,791	-	-	1,430,791
Grounds and building maintenance	59,606	-	-	59,606
Insurance	71,301	11,955	-	83,256
Janitorial service	44,762	-	-	44,762
Miscellaneous	26,465	1,750	-	28,215
Office supplies	28,754	-	-	28,754
Postage	19,569	-	-	19,569
Premiums ceded	-	93,792	-	93,792
Printing	22,391	-	-	22,391
Professional dues	5,127	-	-	5,127
Professional fees	145,696	1,445	-	147,141
Program administration, management and license fees	-	250,457	(250,457)	-
Public official bond expense	-	368,270	-	368,270
Publications	7,117	-	-	7,117
Salaries	3,211,003	-	-	3,211,003
Telephone	55,690	-	-	55,690
Training session expenses	27,519	900	-	28,419
Utilities	70,531	-	-	70,531
	$ 6,480,850	$ 808,128	$ (250,457)	$ 7,038,521

See independent auditor's report.