Kentucky Association of Counties, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended June 30, 2013 and 2012

Kentucky Association of Counties, Inc. and Subsidiaries

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June 30, 2013 and 2012

CPAs & Advisors

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kentucky Association of Counties, Inc. and Subsidiaries ("the Organization"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012 and the related consolidated statements of activities and change in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (Continued)

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 Subsidiaries as of June 30, 2013 and 2012, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 16-17 and the consolidating information on pages 18-20 are presented for the purpose of additional analysis and is not a required part of the 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 as a whole.

Mountjoy Chilton Medley LLP

Louisville, Kentucky
September 19, 2013

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 6,009,133	$ 5,501,592
Accounts receivable	52,183	47,324
Due from related parties	217,605	246,381
Assets held for sale	927,140	927,140
Note receivable, current portion	48,250	47,093
Prepaid expenses	16,859	33,892
Total Current Assets	7,271,170	6,803,422
Property and equipment, net	11,417,180	12,009,107
Note receivable, net of current portion	155,890	204,782
Total Assets	$ 18,844,240	$ 19,017,311
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 129,172	$ 149,395
Accrued compensated absences	447,134	358,252
Unearned revenues	729,102	802,225
Current portion of capital lease obligations	6,365	24,938
Current portion of related party loan	479,706	494,840
Total Current Liabilities	1,791,479	1,829,650
Capital lease obligations, net of current portion	6,800	11,596
Related party loan, net of current portion	6,445,383	7,416,019
Total Liabilities	8,243,662	9,257,265
Net Assets		
Unrestricted		
Board designated - program guarantee fund	1,000,000	750,000
Undesignated	9,178,369	8,587,837
Total unrestricted	10,178,369	9,337,837
Temporarily restricted	422,209	422,209
Total Net Assets	10,600,578	9,760,046
Total Liabilities and Net Assets	$ 18,844,240	$ 19,017,311

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Program administration fees	$ 3,771,565	$ -	$ 3,771,565	$ 3,734,768	$ -	$ 3,734,768
Management fees	2,830,437	-	2,830,437	2,816,914	-	2,816,914
Advisory fees	1,200,598	-	1,200,598	296,712	-	296,712
License fees	5,000	-	5,000	5,000	-	5,000
Public official bond revenue	413,045	-	413,045	403,986	-	403,986
Commissions - other	680,243	-	680,243	619,401	-	619,401
Membership dues	200,418	-	200,418	185,450	-	185,450
Training session fees	44,120	-	44,120	54,215	-	54,215
Interest income	45,153	-	45,153	50,533	-	50,533
Rental income	43,625	-	43,625	47,250	-	47,250
Endorsement and marketing fees	19,774	-	19,774	38,285	-	38,285
KACo convention, net	35,277	-	35,277	22,579	-	22,579
Gain on disposal of fixed assets	4,608	-	4,608	7,400	-	7,400
Miscellaneous	35	-	35	4,369	-	4,369
	9,293,898	-	9,293,898	8,286,862	-	8,286,862
Expenses						
Program services	6,593,952	-	6,593,952	5,754,080	-	5,754,080
Supporting services	1,719,569	-	1,719,569	1,690,475	-	1,690,475
Interest expense	42,142	-	42,142	42,165	-	42,165
Provision for income taxes	97,703	-	97,703	45,845	-	45,845
	8,453,366	-	8,453,366	7,532,565	-	7,532,565
Changes in Net Assets	840,532	-	840,532	754,297	-	754,297
Net Assets at Beginning of Year	9,337,837	422,209	9,760,046	8,583,540	422,209	9,005,749
Net Assets at End of Year	$ 10,178,369	$ 422,209	$ 10,600,578	$ 9,337,837	$ 422,209	$ 9,760,046

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Changes in net assets	$ 840,532	$ 754,297
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Benefit from deferred income taxes	-	46
Depreciation	665,018	732,919
Gain on sale of property and equipment	(4,608)	(7,400)
Changes in:		
Accounts receivable	(4,859)	30,413
Due from related parties	28,776	45,070
Accrued interest	-	(1,875)
Prepaid expenses	17,033	3,952
Accounts payable and accrued liabilities	(20,223)	58,045
Accrued compensated absences	88,882	36,278
Unearned revenues	(73,123)	(41,423)
Net Cash Provided by Operating Activities	1,537,428	1,610,322
Cash Flows from Investing Activities		
Purchases of property and equipment	(89,029)	(86,639)
Proceeds from sale of property and equipment	20,546	7,400
Decrease in restricted cash	-	5,999
Issuance of note receivable	-	(250,000)
Repayments of note receivable	47,735	-
Net Cash Used by Investing Activities	(20,748)	(323,240)
Cash Flows from Financing Activities		
Payments on capital lease obligation	(23,369)	(24,629)
Principal payments on related party loan	(985,770)	(1,021,509)
Net Cash Used by Financing Activities	(1,009,139)	(1,046,138)
Increase in Cash and Cash Equivalents	507,541	240,944
Cash and Cash Equivalents at Beginning of Year	5,501,592	5,260,648
Cash and Cash Equivalents at End of Year	$ 6,009,133	$ 5,501,592
Supplemental Disclosure:		
Cash paid for interest	$ 43,006	$ 42,922
Cash paid for income taxes	52,592	64,850
Non-cash transaction:		
Equipment acquired through capital lease	-	11,725

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 subsidiaries, KACo Insurance Agency, Inc. ("the Agency"), incorporated for the purpose of selling insurance products to county governments in Kentucky, and KACo Financial Advisors, Inc., incorporated in January 2012, for the purpose of providing municipal financial advisory services for counties, schools, special taxing districts, and universities. 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 in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of 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 GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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 Organization'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, 2013 and 2012.

6. Note Receivable: The note receivable consists of an interest bearing note receivable due from Civic Finance Advisors, LLC, earning interest of 3% annually, to be repaid by monthly payments of $4,500, beginning in July 2012. Notes receivable are reported at their outstanding principal, plus any accrued interest. Notes receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. In making that determination, management evaluated the financial condition of the borrower and current economic conditions. Past due status is determined based on contractual terms. Interest on the note is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding.

7. Property and Equipment: Property and equipment is recorded at cost, if purchased, or fair market value at date of contribution, if contributed. It is the Organization's policy to capitalize purchases of property and equipment in excess of $1,500. Lesser amounts are expensed. 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 - 10 years
Vehicles	5 years

Note B - Summary of Significant Accounting Policies (Continued)

7. Property and Equipment (Continued): Depreciation expense during the years ended June 30, 2013 and 2012 was $665,018 and $732,919, respectively.

8. Assets Held for Sale: Certain properties consisting of the 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, 2013. These assets are shown at the lower of their net book value or fair value less cost to sell.

9. 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 $678,712 and $753,303 at June 30, 2013 and 2012, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year-end of $50,390 and $48,922 at June 30, 2013 and 2012, respectively.

10. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled $55,655 and $113,873 in 2013 and 2012, respectively.

11. 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. and KACo Financial Advisors, Inc. are for-profit corporations 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 Organization recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements. The Organization's 2009-2012 tax years remain open and subject to examination.

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.

13. Reclassifications: Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

Note C - Property and Equipment

Property and equipment as of June 30, 2013 and 2012 consists of:

	2013	2012
Land and improvements	$ 1,515,315	$ 1,515,315
Building and improvements	11,608,641	11,580,341
Furniture and fixtures	118,133	115,433
Equipment	1,211,025	1,235,831
Vehicles	217,183	216,793
	14,670,297	14,663,713
Less accumulated depreciation	(3,253,117)	(2,654,606)
	$ 11,417,180	$ 12,009,107

Note D - Capital Lease Obligations

The Organization is the lessee of office equipment under capital leases expiring in fiscal year 2014 and 2017. 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, 2013 and 2012. 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 at 5%, through September 2013.	$ 73,990
Capitalized value of postage machine under a capital lease obligation payable in monthly installments of $212, including interest at 5%, through October 2016	11,725
Accumulated amortization	(51,159)
	$ 34,556

Note D - Capital Lease Obligations (Continued)

Minimum future lease payments under capital leases as of June 30, 2013:

Year Ending June 30,	Amount
2014	$ 6,365
2015	4,116
2016	2,544
2017	848
	13,873
Less amount representing interest	(708)
Present value of net minimum lease payments	13,165
Less current portion	(6,365)
	$ 6,800

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 E - 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, 2013 and 2012, were 0.57% and 0.49%, respectively. The balance outstanding on the loan was $6,925,089 and $7,910,859 at June 30, 2013 and 2012, 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, 2013 and 2012.

Note E - Related Party Loan (Continued)

Principal payments due on long-term debt for the fiscal years subsequent to June 30, 2013 are as follows:

Fiscal Year Ending June 30,	
2014	$ 479,706
2015	495,000
2016	510,000
2017	525,000
2018	545,000
Thereafter	4,370,383
	$ 6,925,089

Note F - Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 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, 2013 and 2012 represent amounts designated by the Board for the program guarantee fund.

Total net assets set aside for the program guarantee fund are $1,422,209 and $1,172,209 as of June 30, 2013 and 2012, respectively.

Note G - 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% or 6%, based on their hire date, of their salary and employers to contribute 19.55% and 18.96% of participants' salaries during the years ended June 30, 2013 and 2012, respectively. The Organization's CERS expenses for the years ended June 30, 2013 and 2012 were $659,679 and $608,261, respectively.

The risks of participating in multiemployer pension plans are different from single-employer plans. Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan are borne by the remaining participating employers.

The Organization also sponsors a 401(k) defined contribution plan ("the Plan"). The Plan covers 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 $166,637 and $164,884 for the years ended June 30, 2013 and 2012, respectively.

Note H - 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:

	2013	2012
KACo All Lines Fund	$ 1,218,026	$ 1,161,481
KACo Workers' Compensation Fund	1,147,112	1,109,067
KACo Unemployment Insurance Fund	392,580	352,899
KACo Leasing Trust	866,776	874,650
KACo Insurance Agency, Inc.	111,501	124,246
KACo Commonwealth Insurance Company	75,170	109,676
Amount related to joint use of office space and equipment (Note B: 9)	79,012	127,948
	3,890,177	3,859,967
Elimination of KACo Insurance Agency, Inc.	(118,612)	(125,199)
	$ 3,771,565	$ 3,734,768

Note H - 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:

	2013	2012
KACo All Lines Fund	$ 964,455	$ 934,678
KACo Workers' Compensation Fund	957,412	973,615
KACo Unemployment Insurance Fund	270,000	256,972
KACo Leasing Trust	385,000	393,360
KACo Insurance Agency, Inc.	160,000	157,920
KACo Commonwealth Insurance Company	253,570	258,289
	2,990,437	2,974,834
Elimination of KACo Insurance Agency, Inc.	(160,000)	(157,920)
	$ 2,830,437	$ 2,816,914

The license fees are summarized as follows:

	2013	2012
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 at June 30 is as follows:

	2013	2012
KACo Leasing Trust	$ 217,605	$ 246,381

Note H - Related Party Transactions (Continued)

A summary of unearned revenues from the overpayment of license, management and program administrative fees at June 30 is as follows:

	2013	2012
Program Administrative Fee		
KACo All Lines Fund	$ 248,861	$ 270,919
KACo Workers' Compensation Fund	210,034	219,232
KACo Unemployment Insurance Fund	33,970	28,701
KACo Leasing Trust	84,156	93,650
KACo Insurance Agency, Inc.	47,189	32,354
KACo Commonwealth Insurance Company	55,725	22,924
Amount related to joint use of office space and equipment	51,637	130,649
	731,572	798,429
Elimination of KACo Insurance Agency, Inc.	(52,860)	(45,126)
	$ 678,712	$ 753,303

Most of the Organization's insurance is provided by KALF and KWC. During 2013 and 2012, the Organization incurred total insurance expense under these agreements of $89,148 and $90,185, respectively.

Note I - KACo Convention

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2013 and 2012 were as follows:

	2013	2012
Convention Income		
Convention registration	$ 158,781	$ 143,976
Convention exhibitors	46,150	40,755
Convention sponsors	96,400	80,000
	301,331	264,731
Convention Expenses	266,054	242,152
	$ 35,277	$ 22,579

Note J - 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 K - Income Taxes

KACo Insurance Agency, Inc. and KACo Financial Advisors, Inc. recognize 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 for income taxes consists of the following:

	2013		
	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Consolidated
Current:			
Federal	$ 50,258	$ 30,853	$ 81,111
State and local	11,494	5,098	16,592
Income Tax Expense	$ 61,752	$ 35,951	$ 97,703

	2012		
	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Consolidated
Current:			
Federal	$ 32,192	$ 4,218	$ 36,410
State and local	8,734	655	9,389
	40,926	4,873	45,799
Deferred:			
Federal	-	-	-
State and local	46	-	46
	46	-	46
Income Tax Expense	$ 40,972	$ 4,873	$ 45,845

Supplementary Information

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Schedules of Program and Supporting Services
Years Ended June 30, 2013 and 2012

	2013	2012
Bank charges	5,185	4,431
Board expense	15,926	15,506
Commissions	54,196	48,842
Communication, promotion and liaison	273,259	362,939
Computer supplies	88,197	91,515
Consulting	550	1,795
Depreciation	665,018	732,919
Endorsement fee	40,340	37,893
Equipment and maintenance	41,305	15,756
Fringe benefits	1,547,017	1,438,133
Grounds and building maintenance	20,876	59,772
Insurance	90,420	86,449
Janitorial service	46,327	47,128
Miscellaneous	23,821	26,024
Office supplies	28,380	34,761
Postage	23,707	23,658
Premiums ceded	73,892	95,335
Printing	11,035	22,171
Professional dues	6,298	5,981
Professional fees	1,242,776	433,190
Public official bond expense	402,979	393,934
Publications	6,525	7,330
Salaries	3,449,971	3,301,721
Telephone	55,806	58,659
Training session expenses	30,488	31,928
Utilities	69,227	66,785
	$ 8,313,521	$ 7,444,555

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Kentucky Association of Counties, Inc. and Subsidiaries
KACo Insurance Agency, Inc. Statement of Cash Flows
Year Ended June 30, 2013

		2013
Cash Flows from Operating Activities		
Changes in net assets	$	142,026
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in:		
Accounts receivable		8,892
Prepaid expenses		(238)
Accounts payable and accrued liabilities		20,201
Unearned revenues		1,468
Net Cash Provided by Operating Activities		172,349
Increase in Cash and Cash Equivalents		172,349
Cash and Cash Equivalents at Beginning of Year		598,037
Cash and Cash Equivalents at End of Year	$	770,386
Supplemental Disclosure:		
Cash paid for income taxes	$	23,612

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Consolidating Information

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2013

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 5,067,343	$ 770,386	$ 171,404	$ -	$ 6,009,133
Accounts receivable	905	32,528	18,750	-	52,183
Due from related parties	217,605	-	-	-	217,605
Assets held for sale	927,140	-	-	-	927,140
Note receivable, current portion	-	-	48,250	-	48,250
Investment in subsidiary	300,000	-	-	(300,000)	-
Prepaid expenses	16,859	52,860	-	(52,860)	16,859
Total Current Assets	6,529,852	855,774	238,404	(352,860)	7,271,170
Property and Equipment, net	11,417,180	-	-	-	11,417,180
Note receivable, net of current portion	-	-	155,890	-	155,890
Total Assets	$ 17,947,032	$ 855,774	$ 394,294	$ (352,860)	$ 18,844,240
Liabilities and Net Assets					
Current Liabilities					
Accounts payable and accrued liabilities	$ 38,071	$ 62,382	$ 28,719	$ -	$ 129,172
Accrued compensated absences	447,134	-	-	-	447,134
Unearned revenues	731,572	50,390	-	(52,860)	729,102
Current portion of capital lease obligations	6,365	-	-	-	6,365
Current portion of related party loan	479,706	-	-	-	479,706
Total Current Liabilities	1,702,848	112,772	28,719	(52,860)	1,791,479
Capital Lease Obligations, net of current portion	6,800	-	-	-	6,800
Related Party Loan, net of current portion	6,445,383	-	-	-	6,445,383
Total Liabilities	8,155,031	112,772	28,719	(52,860)	8,243,662
Commitments and Contingencies					
Net Assets/Equity					
Unrestricted					
Board designated - program guarantee fund	1,000,000	-	-	-	1,000,000
Undesignated	8,369,792	-	-	-	8,369,792
Total Unrestricted	9,369,792	-	-	-	9,369,792
Temporarily restricted	422,209	-	-	-	422,209
Common stock, no par	-	-	300,000	(300,000)	-
Retained earnings	-	743,002	65,575	-	808,577
Total Net Assets/Equity	9,792,001	743,002	365,575	(300,000)	10,600,578
Total Liabilities and Net Assets	$ 17,947,032	$ 855,774	$ 394,294	$ (352,860)	$ 18,844,240

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Statement of Unrestricted Activities
Year Ended June 30, 2013

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Changes in unrestricted net assets					
Revenues, gains and other support					
Program administration fees	$ 3,890,177	$ -	$ -	$ (118,612)	$ 3,771,565
Management fees	2,990,437	-	-	(160,000)	2,830,437
Advisory fees	-	-	1,200,598	-	1,200,598
License fees	6,000	-	-	(1,000)	5,000
Public official bond revenue	-	413,045	-	-	413,045
Commissions - other	-	680,243	-	-	680,243
Membership dues	200,418	-	-	-	200,418
Training session fees	44,120	-	-	-	44,120
Interest income	37,023	1,760	6,370	-	45,153
Rental income	43,625	-	-	-	43,625
Endorsement and marketing fees	19,774	-	-	-	19,774
KACo convention, net	35,277	-	-	-	35,277
Gain on disposal of fixed assets	4,608	-	-	-	4,608
Miscellaneous	35	-	-	-	35
	7,271,494	1,095,048	1,206,968	(279,612)	9,293,898
Expenses					
Program services	4,941,666	571,407	1,080,879	-	6,593,952
Supporting services	1,647,222	319,863	32,096	(279,612)	1,719,569
Interest expense	42,142	-	-	-	42,142
Provision for income taxes	-	61,752	35,951	-	97,703
	6,631,030	953,022	1,148,926	(279,612)	8,453,366
Increase in Unrestricted Net Assets	$ 640,464	$ 142,026	$ 58,042	$ -	$ 840,532

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Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Schedule of Program and Supporting Services
Year Ended June 30, 2013

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Bank charges	$ 5,185	$ -	$ -	$ -	$ 5,185
Board expense	-	8,674	7,252	-	15,926
Commissions	-	54,196	-	-	54,196
Communication, promotion and liaison	267,243	5,550	466	-	273,259
Computer supplies	88,197	-	-	-	88,197
Consulting	-	-	550	-	550
Depreciation	665,018	-	-	-	665,018
Endorsement fee	-	40,340	-	-	40,340
Equipment and maintenance	41,305	-	-	-	41,305
Fringe benefits	1,547,017	-	-	-	1,547,017
Grounds and building maintenance	20,876	-	-	-	20,876
Insurance	74,701	15,719	-	-	90,420
Janitorial service	46,327	-	-	-	46,327
Miscellaneous	22,610	1,188	23	-	23,821
Office supplies	28,380	-	-	-	28,380
Postage	23,707	-	-	-	23,707
Premiums ceded	-	73,892	-	-	73,892
Printing	11,035	-	-	-	11,035
Professional dues	6,298	-	-	-	6,298
Professional fees	128,972	9,120	1,104,684	-	1,242,776
Program administration, management and license fees	-	279,612	-	(279,612)	-
Public official bond expense	-	402,979	-	-	402,979
Publications	6,525	-	-	-	6,525
Salaries	3,449,971	-	-	-	3,449,971
Telephone	55,806	-	-	-	55,806
Training session expenses	30,488	-	-	-	30,488
Utilities	69,227	-	-	-	69,227
	$ 6,588,888	$ 891,270	$ 1,112,975	$ (279,612)	$ 8,313,521

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