Kentucky Association of Counties, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended June 30, 2016 and 2015

Kentucky Association of Counties, Inc. and Subsidiaries

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June 30, 2016 and 2015

CPAs & ADVISORS

Independent Auditor's Report

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

Report on Consolidated Financial Statements

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, 2016 and 2015 and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated 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.

Kentucky
Indiana
Ohio

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kentucky Association of Counties, Inc. and Subsidiaries as of June 30, 2016 and 2015, and the changes in their net assets 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 17-18 and the consolidating information on pages 19-21 are presented for the purpose of additional analysis and are 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 13, 2016

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 2,915,710	$ 2,938,289
Accounts receivable	41,764	23,813
Due from related parties	77,734	121,863
Assets held for sale	-	927,140
Note receivable, current portion	48,933	51,517
Prepaid expenses	29,786	40,662
Total Current Assets	3,113,927	4,103,284
Investments	5,406,036	4,845,767
Property and equipment, net	10,074,107	10,380,304
Note receivable, net of current portion	-	54,077
Total Assets	$ 18,594,070	$ 19,383,432
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 169,265	$ 108,364
Accrued compensated absences	777,334	699,221
Association health plan payable	403,916	388,926
Unearned revenues	692,781	660,809
Current portion of related party loan	630,000	530,000
Total Current Liabilities	2,673,296	2,387,320
Related party loan, net of current portion	1,978,433	4,213,251
Total Liabilities	4,651,729	6,600,571
Commitments and Contingencies		
Net Assets		
Unrestricted		
Board designated - program guarantee fund	1,700,000	1,450,000
Board designated - association health plan reserve	63,416	14,210
Undesignated	11,756,716	10,896,442
Total unrestricted	13,520,132	12,360,652
Temporarily restricted	422,209	422,209
Total Net Assets	13,942,341	12,782,861
Total Liabilities and Net Assets	$ 18,594,070	$ 19,383,432

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Program administration fees	$ 3,845,506	$ -	$ 3,845,506	$ 3,891,759	$ -	$ 3,891,759
Management fees	3,134,843	-	3,134,843	3,077,669	-	3,077,669
Advisory fees	1,131,771	-	1,131,771	505,363	-	505,363
License fees	5,000	-	5,000	5,000	-	5,000
Public official bond revenue	466,018	-	466,018	462,295	-	462,295
Commissions - other	673,074	-	673,074	590,929	-	590,929
Membership dues	214,150	-	214,150	188,742	-	188,742
Training session fees	39,220	-	39,220	53,750	-	53,750
Interest and dividend income	244,111	-	244,111	242,861	-	242,861
Rental income	39,000	-	39,000	43,500	-	43,500
Endorsement and marketing fees	14,599	-	14,599	12,281	-	12,281
Service fees	49,206	-	49,206	14,210	-	14,210
KACo convention, net	(7,187)	-	(7,187)	8,707	-	8,707
Gain on disposal of equipment and assets held for sale	222,134	-	222,134	14,000	-	14,000
Net realized and unrealized (losses) gains on investments	(300,065)	-	(300,065)	21,160	-	21,160
Miscellaneous	1,568	-	1,568	141	-	141
	9,772,948	-	9,772,948	9,132,367	-	9,132,367
Expenses						
Program services	6,657,994	-	6,657,994	6,230,146	-	6,230,146
Supporting services	1,784,236	-	1,784,236	1,831,661	-	1,831,661
Interest expense	35,209	-	35,209	51,196	-	51,196
Provision for income taxes	136,029	-	136,029	83,461	-	83,461
	8,613,468	-	8,613,468	8,196,464	-	8,196,464
Changes in Net Assets	1,159,480	-	1,159,480	935,903	-	935,903
Net Assets at Beginning of Year	12,360,652	422,209	12,782,861	11,424,749	422,209	11,846,958
Net Assets at End of Year	$ 13,520,132	$ 422,209	$ 13,942,341	$ 12,360,652	$ 422,209	$ 12,782,861

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Changes in net assets	$ 1,159,480	$ 935,903
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	300,065	(21,160)
Depreciation	573,199	569,293
Gain on sale of equipment and available for sale assets	(222,134)	(14,000)
Changes in:		
Accounts receivable	(17,951)	28,099
Due from related parties	44,129	49,848
Prepaid expenses	10,876	(10,480)
Accounts payable and accrued liabilities	60,901	14,238
Accrued compensated absences	78,113	241,715
Association health plan payable	14,990	388,926
Unearned revenues	31,972	10,375
Net Cash Provided by Operating Activities	2,033,640	2,192,757
Cash Flows from Investing Activities		
Purchases of property and equipment	(61,728)	(35,448)
Proceeds from sale of property and equipment	14,000	14,000
Proceeds from sale of available for sale assets	930,000	-
Purchases of investments	(2,880,076)	(3,447,680)
Proceeds from sales of investments	2,019,742	803,516
Repayments of note receivable	56,661	50,016
Net Cash Provided by (Used in) Investing Activities	78,599	(2,615,596)
Cash Flows from Financing Activities		
Principal payments on related party loan	(2,134,818)	(791,380)
Decrease in Cash and Cash Equivalents	(22,579)	(1,214,219)
Cash and Cash Equivalents at Beginning of Year	2,938,289	4,152,508
Cash and Cash Equivalents at End of Year	$ 2,915,710	$ 2,938,289
Supplemental Disclosure:		
Cash paid for interest	$ 28,827	$ 41,848
Cash paid for income taxes	116,637	94,102

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 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. 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.

4. Investments: Investments in money market accounts are stated at cost plus accrued interest, which approximates fair value. Other investments are recorded at fair value based upon quoted market prices, or approximated by other observable inputs and market data. Realized and unrealized gains and losses are recorded in the consolidated statements of activities and changes in net assets as incurred.

Note B - Summary of Significant Accounting Policies (Continued)

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, 2016 and 2015.

6. Note Receivable: The note receivable consists of an interest bearing note receivable due from Civic Finance Advisors, LLC, earning interest of 3% annually. In May 2016, the note was amended to increase the monthly payments from $4,500 to $7,059. The note receivable is reported at its outstanding principal, plus any accrued interest. The note receivable is 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

   Depreciation expense during the years ended June 30, 2016 and 2015 was $573,199 and $569,293, respectively.

8. Assets Held for Sale: Certain properties consisting of the buildings in which KACo and affiliates offices were previously located were no longer in use and held for sale as of June 30, 2015. These assets are shown at the lower of their net book value or fair value less cost to sell at June 30, 2015. The assets were sold during fiscal year 2016.

9. Unearned Revenues: Unearned revenues include amounts received from related parties for administrative expenses and services of KACo on behalf of the related parties. 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 $637,596 and $616,139 at June 30, 2016 and 2015, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year-end of $55,185 and $44,670 at June 30, 2016 and 2015, respectively.

10. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled $48,821 and $66,347 in 2016 and 2015, respectively.

Note B - Summary of Significant Accounting Policies (Continued)

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. There are no deferred income taxes at June 30, 2016 or 2015.

    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.

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. Recent Accounting Pronouncements: In February 2016, the FASB issued ASU No. 2016-02, Leases. This updated guidance provides new requirements for leases to be recognized in the financial statements. In general, the guidance requires the lessee to recognize liabilities on the statement of financial position for the obligation to make lease payments and an asset for the right to use the underlying assets for the lease term. There is a differentiation between finance leases and operating leases for the lessee in the statements of activities and cash flows. Finance leases recognize interest on the lease liability separately from the right to use the asset whereas an operating lease recognizes a single lease cost allocated over the lease term on a generally straight-line basis. All cash payments are within operating activities in the statement of cash flows except finance leases classify repayments of the principal portion of the lease liability within financing activities. The updated guidance is to be applied using a modified retrospective approach effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Organization's consolidated financial statements.

    In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition guidance in Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods or services. This standard is effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating this guidance and its related impact on the Organization's consolidated financial statements.

    In August 2016, the FASB issued Accounting Standards Update No. 2016-14 (ASU 2016-14), Presentation of Financial Statements of Not-for-Profit Entities. This updated guidance changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors and other users. This guidance includes qualitative and quantitative requirements in the following areas: 1) net asset classes 2) investment returns 3) expenses 4) liquidity and availability of resources and 5) presentation of operating cash flows. This standard is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Organization is currently evaluating this guidance and its related impact on the Organization's consolidated financial statements.

Note C - Investments

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.

Following is a description of the valuation methodologies for assets measured at fair value:

Money market accounts: Valued at cost plus accrued interest which approximates fair value.

Mutual funds and common stock: Valued at the net asset value of the underlying assets, at the underlying net asset value less applicable fees or at quoted market price.

Government securities and corporate bonds: Valued using pricing for similar securities, recently executed transactions, cash flow models with yield curves and other pricing models utilizing observable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis at June 30, 2016.

	Investments at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Money market	$ 77,693	$ -	$ -	$ 77,693
Mutual funds	1,984,967	-	-	1,984,967
Common stock	1,883,797	-	-	1,883,797
Municipal bonds	-	730,000	-	730,000
Corporate bonds	-	729,579	-	729,579
Total	$ 3,946,457	$ 1,459,579	$ -	$ 5,406,036

Note C - Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis at June 30, 2015.

	Investments at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Money market	$ 62,341	$ -	$ -	$ 62,341
Mutual funds	2,001,995	-	-	2,001,995
Common stock	2,075,448	-	-	2,075,448
Municipal bonds	-	25,466	-	25,466
Corporate bonds	-	680,517	-	680,517
Total	$ 4,139,784	$ 705,983	$ -	$ 4,845,767

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization.

Note D - Property and Equipment

Property and equipment as of June 30, 2016 and 2015 consists of:

	2016	2015
Land and improvements	$ 1,515,315	$ 1,515,315
Building and improvements	11,456,707	11,668,651
Furniture and fixtures	29,575	29,575
Equipment	1,052,742	1,044,007
Vehicles	198,965	194,478
	14,253,304	14,452,026
Less accumulated depreciation	(4,179,197)	(4,071,722)
	$ 10,074,107	$ 10,380,304

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, 2016 and 2015, were 0.96% and 1.00%, respectively. The balance outstanding on the loan was $2,608,433 and $4,743,251 at June 30, 2016 and 2015, 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.

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, 2016 and 2015.

Principal payments due on long-term debt for the fiscal years subsequent to June 30, 2016 are as follows:

Fiscal Year Ending June 30,	
2017	$ 630,000
2018	650,000
2019	670,000
2020	658,433
	$ 2,608,433

Note F - Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 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, 2016 and 2015 represent amounts designated by the Board for the program guarantee fund and the association health plan.

Total net assets set aside for the program guarantee fund are $2,122,209 and $1,872,209 as of June 30, 2016 and 2015, 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 5.00% or 6.00%, based on their hire date, of their salary and employers to contribute 17.06% and 17.67% of participants' salaries during the years ended June 30, 2016 and 2015, respectively. The Organization's CERS expenses for the years ended June 30, 2016 and 2015 were $616,559 and $630,571, respectively.

Note G - Retirement Plans (Continued)

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 401(k) Plan"). The 401(k) Plan covers all full-time employees. The Organization makes matching contributions at 100% of the first 6% contributed by participants. Effective January 1, 2015, matching contributions are remitted to a 401(a) defined contribution plan ("the 401(a) Plan"). Participants are 100% vested in all employer contributions upon entering the 401(a) Plan. The Organization's matching contribution to the Plans was $198,035 and $194,511 for the years ended June 30, 2016 and 2015, 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.

Note H - Related Party Transactions (Continued)

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:

	2016	2015
KACo All Lines Fund	$ 1,278,965	$ 1,262,013
KACo Workers' Compensation Fund	1,173,361	1,184,645
KACo Unemployment Insurance Fund	386,703	412,790
KACo Leasing Trust	928,968	957,895
KACo Insurance Agency, Inc.	123,093	105,998
KACo Commonwealth Insurance Company	77,509	74,416
	3,968,599	3,997,757
Elimination of KACo Insurance Agency, Inc.	(123,093)	(105,998)
	$ 3,845,506	$ 3,891,759

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:

	2016	2015
KACo All Lines Fund	$ 1,126,090	$ 1,098,572
KACo Workers' Compensation Fund	1,099,133	1,082,797
KACo Unemployment Insurance Fund	272,040	267,600
KACo Leasing Trust	388,825	380,500
KACo Insurance Agency, Inc.	160,510	159,400
KACo Commonwealth Insurance Company	248,755	248,200
KACo Financial Advisors, Inc.	25,000	25,000
	3,320,353	3,262,069
Elimination of KACo Insurance Agency, Inc.	(160,510)	(159,400)
Elimination of KACo Financial Advisors, Inc.	(25,000)	(25,000)
	$ 3,134,843	$ 3,077,669

Note H - Related Party Transactions (Continued)

The license fees are summarized as follows:

	2016	2015
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:

	2016	2015
KACo Leasing Trust	$ 77,734	$ 121,863

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

	2016	2015
Program Administrative Fee		
KACo All Lines Fund	$ 233,837	$ 252,773
KACo Workers' Compensation Fund	234,639	225,499
KACo Unemployment Insurance Fund	70,697	36,899
KACo Leasing Trust	79,182	81,522
KACo Insurance Agency, Inc.	13,706	26,003
KACo Commonwealth Insurance Company	19,241	19,446
	651,302	642,142
Elimination of KACo Insurance Agency, Inc.	(13,706)	(26,003)
	$ 637,596	$ 616,139

Most of the Organization's insurance is provided by KALF and KWC. During 2016 and 2015, the Organization incurred total insurance expense under these agreements of $108,381 and $113,087, respectively.

Note I - KACo Convention

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Convention Income		
Convention registration	$ 144,055	$ 143,049
Convention exhibitors	55,450	49,855
Convention sponsors	80,750	108,050
	280,255	300,954
Convention Expenses	287,442	292,247
	$ (7,187)	$ 8,707

Note J - Lease Commitments

During the year ended June 30, 2014, the Organization entered into a non-cancelable lease agreement for use of three copiers. Rent expense of $12,269 was recorded under this lease during each of the years ended June 30, 2016 and 2015.

Future minimum lease payments under this lease are $10,224 in fiscal year 2017.

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

The provision for income taxes consists of the following:

	2016		
	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Consolidated
Current:			
Federal	$ 96,577	$ 18,179	$ 114,756
State and local	18,249	3,024	21,273
Income Tax Expense	$ 114,826	$ 21,203	$ 136,029

	2015		
	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Consolidated
Current:			
Federal	$ 68,577	$ (52)	$ 68,525
State and local	14,626	310	14,936
Income Tax Expense	$ 83,203	$ 258	$ 83,461

Supplementary Information

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Schedules of Program and Supporting Services
Years Ended June 30, 2016 and 2015

	2016	2015
Bank charges	$ 2,657	$ 3,005
Board expense	18,012	21,363
Commissions	19,491	18,560
Communication, promotion and liaison	282,460	326,627
Computer supplies	73,163	86,075
Consulting	1,650	1,625
Depreciation	573,199	569,293
Endorsement fee	42,905	38,045
Equipment and maintenance	26,785	34,229
Fringe benefits	1,602,875	1,786,195
Grounds and building maintenance	37,604	46,626
Insurance	118,150	125,182
Janitorial service	46,979	46,735
Miscellaneous	27,377	26,234
Office supplies	29,659	31,016
Postage	26,290	20,612
Printing	30,532	29,056
Professional dues	8,812	10,054
Professional fees	1,201,492	634,250
Public official bond expense	454,491	454,036
Publications	7,058	5,167
Salaries	3,666,826	3,598,960
Telephone	56,623	48,385
Training session expenses	33,569	30,412
Travel expenses	2,255	1,750
Utilities	51,316	68,315
	$ 8,442,230	$ 8,061,807

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiaries
KACo Insurance Agency, Inc. Statement of Cash Flows
Year Ended June 30, 2016

		2016
Cash Flows from Operating Activities		
Changes in net assets	$	184,922
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in:		
Accounts receivable		(4,291)
Prepaid expenses		18,587
Accounts payable and accrued liabilities		36,570
Unearned revenues		10,515
Net Cash Provided by Operating Activities		246,303
Cash Flows from Financing Activities		
Payment of dividend declared		(200,000)
Increase in Cash and Cash Equivalents		46,303
Cash and Cash Equivalents at Beginning of Year		456,589
Cash and Cash Equivalents at End of Year	$	502,892
Supplemental Disclosure:		
Cash paid for income taxes	$	77,278

See independent auditor's report.

Consolidating Information

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2016

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 2,035,472	$ 502,892	$ 377,346	$ -	$ 2,915,710
Accounts receivable	7,143	28,104	6,517	-	41,764
Due from related parties	77,734	-	-	-	77,734
Assets held for sale	-	-	-	-	-
Note receivable, current portion	48,933	-	-	-	48,933
Prepaid expenses	29,786	13,706	-	(13,706)	29,786
Total Current Assets	2,199,068	544,702	383,863	(13,706)	3,113,927
Investments	5,406,036	-	-	-	5,406,036
Property and equipment, net	10,074,107	-	-	-	10,074,107
Investment in Subsidiary	237,246	-	-	(237,246)	-
Total Assets	$ 17,916,457	$ 544,702	$ 383,863	$ (250,952)	$ 18,594,070
Liabilities and Net Assets					
Current Liabilities					
Accounts payable and accrued liabilities	$ 95,148	$ 69,308	$ 4,809	$ -	$ 169,265
Accrued compensated absences	777,334	-	-	-	777,334
Association health plan payable	403,916	-	-	-	403,916
Unearned revenues	651,302	55,185	-	(13,706)	692,781
Current portion of related party loan	630,000	-	-	-	630,000
Total Current Liabilities	2,557,700	124,493	4,809	(13,706)	2,673,296
Related party loan, net of current portion	1,978,433	-	-	-	1,978,433
Total Liabilities	4,536,133	124,493	4,809	(13,706)	4,651,729
Commitments and Contingencies					
Net Assets/Equity					
Unrestricted					
Board designated - program guarantee fund	1,700,000	-	-	-	1,700,000
Board designated - association health plan reserve	63,416	-	-	-	63,416
Undesignated	11,194,699	-	-	-	11,194,699
Total Unrestricted	12,958,115	-	-	-	12,958,115
Temporarily restricted	422,209	-	-	-	422,209
Common stock, no par	-	-	237,246	(237,246)	-
Retained earnings	-	420,209	141,808	-	562,017
Total Net Assets/Equity	13,380,324	420,209	379,054	(237,246)	13,942,341
Total Liabilities and Net Assets	$ 17,916,457	$ 544,702	$ 383,863	$ (250,952)	$ 18,594,070

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Statement of Unrestricted Activities
Year Ended June 30, 2016

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Changes in unrestricted net assets					
Revenues, gains and other support					
Program administration fees	$ 3,968,599	$ -	$ -	$ (123,093)	$ 3,845,506
Management fees	3,320,353	-	-	(185,510)	3,134,843
Advisory fees	-	-	1,131,771	-	1,131,771
License fees	6,000	-	-	(1,000)	5,000
Public official bond revenue	-	466,018	-	-	466,018
Commissions - other	-	673,074	-	-	673,074
Membership dues	214,150	-	-	-	214,150
Training session fees	39,220	-	-	-	39,220
Interest and dividend income	439,276	1,514	3,321	(200,000)	244,111
Rental income	39,000	-	-	-	39,000
Endorsement and marketing fees	14,599	-	-	-	14,599
Service fees	49,206	-	-	-	49,206
KACo convention, net	(7,187)	-	-	-	(7,187)
Gain on disposal of equipment and assets held for sale	222,134	-	-	-	222,134
Net realized and unrealized losses on investments	(300,065)	-	-	-	(300,065)
Miscellaneous	1,568	-	-	-	1,568
	8,006,853	1,140,606	1,135,092	(509,603)	9,772,948
Expenses					
Program services	5,122,513	516,887	1,018,594	-	6,657,994
Supporting services	1,707,504	323,971	62,364	(309,603)	1,784,236
Interest expense	35,209	-	-	-	35,209
Provision for income taxes	-	114,826	21,203	-	136,029
	6,865,226	955,684	1,102,161	(309,603)	8,613,468
Increase in Unrestricted Net Assets	1,141,627	184,922	32,931	(200,000)	1,159,480
Unrestricted Net Assets at Beginning of Year	11,816,488	435,287	408,877	(237,246)	12,423,406
Capital distribution to KACO	-	-	(62,754)	-	(62,754)
Dividend issued to KACo	-	(200,000)	-	200,000	-
Unrestricted Net Assets at End of Year	$ 12,958,115	$ 420,209	$ 379,054	$ (237,246)	$ 13,520,132

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Schedule of Program and Supporting Services
Year Ended June 30, 2016

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Bank charges	$ 2,657	$ -	$ -	$ -	$ 2,657
Board expense	-	10,975	7,037	-	18,012
Commissions	-	19,491	-	-	19,491
Communication, promotion and liaison	280,733	1,727	-	-	282,460
Computer supplies	73,163	-	-	-	73,163
Consulting	-	-	1,650	-	1,650
Depreciation	573,199	-	-	-	573,199
Endorsement fee	-	42,905	-	-	42,905
Equipment and maintenance	26,785	-	-	-	26,785
Fringe benefits	1,602,875	-	-	-	1,602,875
Grounds and building maintenance	37,604	-	-	-	37,604
Insurance	91,500	26,650	-	-	118,150
Janitorial service	46,979	-	-	-	46,979
Miscellaneous	25,787	16	1,574	-	27,377
Office supplies	29,659	-	-	-	29,659
Postage	26,290	-	-	-	26,290
Printing	30,532	-	-	-	30,532
Professional dues	8,812	-	-	-	8,812
Professional fees	158,050	-	1,043,442	-	1,201,492
Program administration, management and license fees	-	284,603	25,000	(309,603)	-
Public official bond expense	-	454,491	-	-	454,491
Publications	7,058	-	-	-	7,058
Salaries	3,666,826	-	-	-	3,666,826
Telephone	56,623	-	-	-	56,623
Training session expenses	33,569	-	-	-	33,569
Travel expenses	-	-	2,255	-	2,255
Utilities	51,316	-	-	-	51,316
	$ 6,830,017	$ 840,858	$ 1,080,958	$ (309,603)	$ 8,442,230

See independent auditor's report.