Kentucky Association of Counties, Inc.
and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2010 and 2009

Kentucky Association of Counties, Inc. and Subsidiary

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Mountjoy
Chilton
Medley

Independent Auditor's Report

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, 2010 and 2009 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, 2010 and 2009, 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 taken as a whole. The supplementary information on page 18 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. The consolidating information on pages 19-20 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual entities. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Mountjoy Chilton Medley LLP

Mountjoy Chilton Medley LLP
Louisville, Kentucky
October 28, 2010

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 6,128,430	$ 2,882,061
Accounts receivable	19,919	40,476
Due from related parties	100,721	414,122
Assets held for sale	927,140	-
Prepaid expenses	59,425	74,645
Total Current Assets	7,235,635	3,411,304
Property and Equipment, net	13,591,099	8,046,958
Deferred Tax Asset	18,182	-
Restricted Cash	351,312	8,461,137
Total Assets	$ 21,196,228	$ 19,919,399
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 752,660	$ 290,795
Accrued compensated absences	260,856	221,339
Unearned revenues	1,036,402	1,038,216
Current portion of capital lease obligations	22,667	-
Current portion of related party loan	460,000	460,000
Total Current Liabilities	2,532,585	2,010,350
Capital Lease Obligations, net of current portion	49,438	-
Related Party Loan, net of current portion	10,445,000	11,105,000
Total Liabilities	13,027,023	13,115,350
Commitments and Contingencies		
Net Assets		
Unrestricted		
Board designated - program guarantee fund	250,000	-
Undesignated	7,496,996	6,381,840
Total Unrestricted	7,746,996	6,381,840
Temporarily restricted	422,209	422,209
Total Net Assets	8,169,205	6,804,049
Total Liabilities and Net Assets	$ 21,196,228	$ 19,919,399

The accompanying notes are an integral part of these consolidated financial statements.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support						
Program administration fees	$ 4,026,030	$ -	$ 4,026,030	$ 4,036,020	$ -	$ 4,036,020
Management fees	2,555,073	-	2,555,073	1,574,592	-	1,574,592
License fees	5,000	-	5,000	8,000	-	8,000
Contributions	-	-	-	-	150,000	150,000
Public official bond revenue	355,459	-	355,459	384,705	-	384,705
Commissions - other	599,260	-	599,260	595,453	-	595,453
Membership dues	153,900	-	153,900	134,200	-	134,200
Training session fees	36,760	-	36,760	65,195	-	65,195
Associate membership fees	-	-	-	22,750	-	22,750
NACo commissions	-	-	-	10,776	-	10,776
Interest income	153,363	-	153,363	203,447	-	203,447
Rental income	10,315	-	10,315	8,400	-	8,400
Endorsement and marketing fees	63,694	-	63,694	-	-	-
Miscellaneous	10,784	-	10,784	54,945	-	54,945
Net assets released from restrictions	-	-	-	1,883,482	(1,883,482)	-
	7,969,638	-	7,969,638	8,981,965	(1,733,482)	7,248,483
Expenses						
Program services	4,528,696	-	4,528,696	4,919,458	-	4,919,458
Supporting services	2,022,761	-	2,022,761	2,226,385	-	2,226,385
Interest expense	71,207	-	71,207	-	-	-
(Benefit) provision for income taxes	(18,182)	-	(18,182)	2,758	-	2,758
	6,604,482	-	6,604,482	7,148,601	-	7,148,601
Changes in Net Assets	1,365,156	-	1,365,156	1,833,364	(1,733,482)	99,882
Net Assets at Beginning of Year	6,381,840	422,209	6,804,049	4,548,476	2,155,691	6,704,167
Net Assets at End of Year	$ 7,746,996	$ 422,209	$ 8,169,205	$ 6,381,840	$ 422,209	$ 6,804,049

The accompanying notes are an integral part of these consolidated financial statements.

Kentucky Association of Counties, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Changes in net assets	$ 1,365,156	$ 99,882
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Benefit from deferred income taxes	(18,182)	-
Bad debt expense	1,577	786,101
Depreciation	294,746	161,980
Loss on sale of property and equipment	14,668	6,449
Changes in:		
Accounts receivable	18,980	8,909
Due from related parties	313,401	(348,987)
Prepaid expenses	15,220	16,844
Accounts payable and accrued liabilities	(67,487)	69,381
Accrued compensated absences	39,517	34,173
Unearned revenues	(1,814)	410,197
Net Cash Provided by Operating Activities	1,975,782	1,244,929
Cash Flows from Investing Activities		
Purchases of property and equipment	(6,177,353)	(5,359,248)
Decrease (Increase) in restricted cash	8,109,825	(8,461,137)
Net Cash Provided (Used) by Investing Activities	1,932,472	(13,820,385)
Cash Flows from Financing Activities		
Payments on capital lease obligation	(1,885)	-
Proceeds from related party loan	-	12,000,000
Principal payments on related party loan	(660,000)	(435,000)
Net Cash (Used) Provided by Financing Activities	(661,885)	11,565,000
Increase (Decrease) in Cash and Cash Equivalents	3,246,369	(1,010,456)
Cash and Cash Equivalents at Beginning of Year	2,882,061	3,892,517
Cash and Cash Equivalents at End of Year	$ 6,128,430	$ 2,882,061
Supplemental disclosure:		
Cash paid for interest, net of amounts capitalized of $293,366 and $277,044 at June 30, 2010 and 2009, respectively	$ 71,085	$ -
Non-cash transaction:		
Purchases of property and equipment included in accounts payable	$ 644,971	$ 115,619
Equipment acquired through capital lease	73,990	-

The accompanying notes are an integral part of these consolidated financial statements.

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 financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

   In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, entitled The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("GAAP"). In substance, SFAS No. 168 makes the FASB Accounting Standards Codification ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC now is considered to be non-authoritative. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Organization adopted the ASC upon issuance, with no material impact to the consolidated financial statements.

   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.

Note B - Summary of Significant Accounting Policies (Continued)

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. 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 primarily consists 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, 2010 and 2009. At June 30, 2010 and 2009, one insurance company represented 66% and 36% of accounts receivable, respectively.

Note B - Summary of Significant Accounting Policies (Continued)

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, 2010 and 2009 was $294,746 and $161,980, 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 for sale as of June 30, 2010. These assets are shown at the lower of their net book value or fair value less cost to sell.

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 $985,077 and $1,016,821 at June 30, 2010 and 2009, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year end of $51,325 and $21,395 at June 30, 2010 and 2009, respectively.

9. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled $66,103 and $187,007 in 2010 and 2009, 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.

Note B - Summary of Significant Accounting Policies (Continued)

10. Income Taxes (Continued): The FASB has issued new standards, contained in the ASC, clarifying the accounting for uncertainty in income taxes recognized in an enterprise's financial statements for fiscal years beginning after December 31, 2008. 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 adopted these standards, as required, and determined that no material adjustment for tax exposures or unrecognized tax benefits was required under the recognition and measurement and disclosure guidance of the new standard.

11. 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 financial statements were available to be issued.

Note C - Property and Equipment

Property and equipment as of June 30, 2010 and 2009 consists of:

	2010	2009
Land and improvements	$ 1,515,315	$ 1,458,492
Building and improvements	11,789,778	985,477
Furniture and fixtures	112,733	172,154
Equipment	1,179,410	1,230,519
Vehicles	216,572	186,231
Construction in progress	-	5,290,357
	14,813,808	9,323,230
Less accumulated depreciation	(1,222,709)	(1,276,272)
	$ 13,591,099	$ 8,046,958

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, 2010 and 2009, the balance of the restricted cash is $351,312 and $8,461,137, 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 fiscal year 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	(2,466)
	$ 71,524

Minimum future lease payments under capital leases as of June 30, 2010 :

Year Ending June 30,	Amount
2011	$ 22,926
2012	22,926
2013	22,926
2014	3,819
	72,597
Less amount representing interest	(492)
Present value of net minimum lease payments	72,105
Less current portion	(22,667)
	$ 49,438

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. Interest is payable monthly 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. 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.

For the years ended June 30, 2010 and 2009, KACo incurred $374,893 and $277,044, respectively, in interest on the Construction Loan, of which $293,366 and $277,044, respectively, was capitalized in building and construction in progress during the years then ended.

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, 2010.

Principal payments due on long-term debt for the fiscal years subsequent to June 30, 2010 are as follows:

Fiscal Year Ending June 30,	
2011	$ 460,000
2012	475,000
2013	490,000
2014	510,000
2015	525,000
Thereafter	8,445,000
	$ 10,905,000

Note G – Net Assets

Temporarily restricted net assets at June 30, 2010 and 2009 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, 2010 represent amounts designated by the Board for the program guarantee fund.

Total net assets set aside for the program guarantee fund are $672,209 and $422,209 as of June 30, 2010 and June 20, 2009, 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 16.16% and 13.50% of participants' salaries during the years ended June 30, 2010 and 2009, respectively. The Organization's CERS expense for the years ended June 30, 2010 and 2009 was $500,734 and $403,246, 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 $245,462 and $234,670 for the years ended June 30, 2010 and 2009, 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 Advance Revenue Program ("KARP") was established to assist public agencies in meeting anticipated cash flow needs which arise from timing differences between budgeted expenditures and receipts. The operation of this program was suspended during 2009.

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

Kentucky Association of Counties, Inc. and Subsidiary
Notes to Consolidated Financial Statements (Continued)
June 30, 2010 and 2009

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:

	2010	2009
KACo All Lines Fund	$ 853,049	$ 590,202
KACo Workers' Compensation Fund	857,998	654,144
KACo Unemployment Insurance Fund	261,100	100,000
KACo Leasing Trust	421,800	150,000
KACo Insurance Agency, Inc.	138,200	75,000
KACo Commonwealth Insurance Company	161,126	52,121
KACo Advanced Revenue Program	-	28,125
	2,693,273	1,649,592
Elimination of KACo Insurance Agency, Inc.	(138,200)	(75,000)
	$ 2,555,073	$ 1,574,592

The license fees are summarized as follows:

	2010	2009
KACo All Lines Fund	$ 1,000	$ 2,000
KACo Workers' Compensation Fund	1,000	2,000
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
KACo Advanced Revenue Program	-	1,000
	6,000	9,000
Elimination of KACo Insurance Agency, Inc.	(1,000)	(1,000)
	$ 5,000	$ 8,000

Note I - 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:

	2010	2009
KACo All Lines Fund	$ 1,347,372	$ 1,343,438
KACo Workers' Compensation Fund	1,187,737	1,243,034
KACo Unemployment Insurance Fund	374,566	459,669
KACo Leasing Trust	850,079	934,955
KACo Insurance Agency, Inc.	164,292	493,505
KACo Commonwealth Insurance Company	82,493	137,863
KACo Advanced Revenue Program	-	149,031
Amount related to prepayments on equipment use (Note B 8)	-	(267,492)
Amount related to joint use of office space and equipment (Note B 8)	198,401	20,272
	4,204,940	4,514,275
Elimination of KACo Insurance Agency, Inc.	(178,910)	(478,255)
	$ 4,026,030	$ 4,036,020

KACo receives temporarily restricted contributions from its affiliates. Such contributions are summarized as follows:

	2010	2009
KACo Unemployment Insurance Fund	$ -	$ 50,000
KACo Leasing Trust	-	50,000
KACo Advanced Revenue Program	-	50,000
	$ -	$ 150,000

During 2008 and prior, KACo had advanced a total of $605,000 to KARP. These advances were a formal note payable maturing July 30, 2009 that had an interest rate at the variable rate of the target federal funds. During 2009, KARP's Board of Trustees suspended the program's operations due to lack of funding and the current market conditions providing little opportunity for success. KACo's executive board and management will meet annually to determine if the KARP program should be reinstated. Accordingly, the note receivable and other amounts due from KARP totaling $786,101 were written off during 2009.

Note I - Related Party Transactions (Continued)

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

	2010	2009
Management Fee		
KACo Leasing Trust	$ -	$ 37,500
KACo Workers' Compensation Fund	-	9,032
License Fee		
KACo Unemployment Insurance Fund	-	1,000
Guarantee Fund Contributions		
KACo Leasing Trust	-	12,500
Program Administrative Fee		
KACo Leasing Trust	-	252,700
Other Advances		
KACo Leasing Trust	100,721	100,976
KACo Unemployment Insurance Fund	-	191
KACo Insurance Agency, Inc.	-	106
KACo Workers' Compensation Fund	-	223
	100,721	414,228
Elimination of KACo Insurance Agency, Inc.		(106)
	$ 100,721	$ 414,122

Note I - Related Party Transactions (Continued)

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

	2010	2009
Program Administrative Fee		
KACo All Lines Fund	$ 153,724	$ 132,484
KACo Workers' Compensation Fund	182,009	141,366
KACo Unemployment Insurance Fund	25,630	51,631
KACo Leasing Trust	190,441	75,845
KACo Insurance Agency, Inc.	27,104	21,995
KACo Commonwealth Insurance Company	21,903	20,337
Amount related to joint use of office space and equipment	438,935	637,337
	1,039,746	1,080,995
Elimination of KACo Insurance Agency, Inc.	(54,669)	(64,174)
	$ 985,077	$ 1,016,821

Most of the Organization's insurance is provided by KALF and KWC. During 2010 and 2009, the Organization incurred total insurance expense under these agreements of $81,921 and $73,981, respectively.

Note J - KACo Convention

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Convention Income		
Convention registration	$ 128,995	$ 131,893
Convention exhibitors	35,813	48,900
Convention sponsors	69,900	77,000
	234,708	257,793
Convention Expenses	227,066	312,601
	$ 7,642	$ (54,808)

The net amount is included in program services on the consolidated statements of activities and changes in net assets for the years ended June 30, 2010 and 2009.

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:

	2010	2009
Current:		
Federal	$ -	$ -
State and local	-	4,596
	-	4,596
Deferred:		
Federal	(15,783)	-
State and local	(2,399)	-
	(18,182)	-
Income Tax (Benefit) Expense	$ (18,182)	$ 4,596

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

	2010	2009
Deferred tax asset		
Charitable contributions	$ 7,354	$ -
Net operating losses	10,828	-
Net deferred tax asset	$ 18,182	$ -

KIA has a net operating loss carryforward of approximately $28,000, which will expire beginning in 2028 and may be limited in certain circumstances.

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, 2010.