

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Financial Statements**  
**Years Ended June 30, 2014 and 2013**

**Kentucky Association of Counties, Inc. and Subsidiaries**

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June 30, 2014 and 2013

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## **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, 2014 and 2013 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 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.


## **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, 2014 and 2013, 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 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.



Louisville, Kentucky  
September 18, 2014

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 4,152,508	\$ 6,009,133
Accounts receivable	51,912	52,183
Due from related parties	171,711	217,605
Assets held for sale	927,140	927,140
Note receivable, current portion	51,010	48,250
Prepaid expenses	30,182	16,859
Investments	558,234	-
	<hr/>	<hr/>
Total Current Assets	5,942,697	7,271,170
Program guarantee investments	1,622,209	-
Property and equipment, net	10,914,149	11,417,180
Note receivable, net of current portion	104,600	155,890
	<hr/>	<hr/>
Total Assets	<u>\$ 18,583,655</u>	<u>\$ 18,844,240</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 94,126	\$ 129,349
Accrued compensated absences	457,506	446,957
Unearned revenues	650,434	729,102
Current portion of capital lease obligations	-	6,365
Current portion of related party loan	484,193	479,706
	<hr/>	<hr/>
Total Current Liabilities	1,686,259	1,791,479
Capital lease obligations, net of current portion	-	6,800
Related party loan, net of current portion	5,050,438	6,445,383
	<hr/>	<hr/>
Total Liabilities	6,736,697	8,243,662
Net Assets		
Unrestricted		
Board designated - program guarantee fund	1,200,000	1,000,000
Undesignated	10,224,749	9,178,369
	<hr/>	<hr/>
Total unrestricted	11,424,749	10,178,369
Temporarily restricted	422,209	422,209
	<hr/>	<hr/>
Total Net Assets	11,846,958	10,600,578
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 18,583,655</u>	<u>\$ 18,844,240</u>

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2014 and 2013**

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Program administration fees	\$ 3,811,008	\$ -	\$ 3,811,008	\$ 3,771,565	\$ -	\$ 3,771,565
Management fees	3,015,590	-	3,015,590	2,830,437	-	2,830,437
Advisory fees	1,023,080	-	1,023,080	1,200,598	-	1,200,598
License fees	5,000	-	5,000	5,000	-	5,000
Public official bond revenue	427,527	-	427,527	413,045	-	413,045
Commissions - other	645,374	-	645,374	680,243	-	680,243
Membership dues	195,450	-	195,450	200,418	-	200,418
Training session fees	41,975	-	41,975	44,120	-	44,120
Interest and dividend income	122,135	-	122,135	45,153	-	45,153
Rental income	47,000	-	47,000	43,625	-	43,625
Endorsement and marketing fees	14,910	-	14,910	19,774	-	19,774
KACo convention, net	45,844	-	45,844	35,277	-	35,277
Gain on disposal of fixed assets	5,032	-	5,032	4,608	-	4,608
Net realized and unrealized gains on investments	134,717	-	134,717	-	-	-
Miscellaneous	9,942	-	9,942	35	-	35
	<u>9,544,584</u>	<u>-</u>	<u>9,544,584</u>	<u>9,293,898</u>	<u>-</u>	<u>9,293,898</u>
Expenses						
Program services	6,424,702	-	6,424,702	6,593,952	-	6,593,952
Supporting services	1,720,356	-	1,720,356	1,719,569	-	1,719,569
Interest expense	38,521	-	38,521	42,142	-	42,142
Provision for income taxes	114,625	-	114,625	97,703	-	97,703
	<u>8,298,204</u>	<u>-</u>	<u>8,298,204</u>	<u>8,453,366</u>	<u>-</u>	<u>8,453,366</u>
Changes in Net Assets	1,246,380	-	1,246,380	840,532	-	840,532
Net Assets at Beginning of Year	<u>10,178,369</u>	<u>422,209</u>	<u>10,600,578</u>	<u>9,337,837</u>	<u>422,209</u>	<u>9,760,046</u>
Net Assets at End of Year	<u>\$ 11,424,749</u>	<u>\$ 422,209</u>	<u>\$ 11,846,958</u>	<u>\$ 10,178,369</u>	<u>\$ 422,209</u>	<u>\$ 10,600,578</u>

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 1,246,380	\$ 840,532
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(134,717)	-
Depreciation	596,210	665,018
Gain on sale of property and equipment	(5,032)	(4,608)
Changes in:		
Accounts receivable	271	(4,859)
Due from related parties	45,894	28,776
Prepaid expenses	(13,323)	17,033
Accounts payable and accrued liabilities	(35,223)	(20,223)
Accrued compensated absences	10,549	88,882
Unearned revenues	(78,668)	(73,123)
Net Cash Provided by Operating Activities	<u>1,632,341</u>	<u>1,537,428</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(109,647)	(89,029)
Proceeds from sale of property and equipment	21,500	20,546
Purchases of investments	(2,463,546)	-
Proceeds from sales of investments	417,820	-
Repayments of note receivable	48,530	47,735
Net Cash Used by Investing Activities	<u>(2,085,343)</u>	<u>(20,748)</u>
Cash Flows from Financing Activities		
Payments on capital lease obligation	(13,165)	(23,369)
Principal payments on related party loan	(1,390,458)	(985,770)
Net Cash Used by Financing Activities	<u>(1,403,623)</u>	<u>(1,009,139)</u>
(Decrease) Increase in Cash and Cash Equivalents	(1,856,625)	507,541
Cash and Cash Equivalents at Beginning of Year	<u>6,009,133</u>	<u>5,501,592</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,152,508</u>	<u>\$ 6,009,133</u>
Supplemental Disclosure:		
Cash paid for interest	\$ 40,881	\$ 43,006
Cash paid for income taxes	167,668	52,592

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**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 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.
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.



**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**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, 2014 and 2013.
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. 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, 2014 and 2013 was \$596,210 and \$665,018, 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. 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 \$612,366 and \$678,712 at June 30, 2014 and 2013, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year-end of \$38,068 and \$50,390 at June 30, 2014 and 2013, respectively.
10. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled \$75,245 and \$55,655 in 2014 and 2013, respectively.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**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, 2014 or 2013.

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 2010-2013 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.

**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.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note C - Investments (Continued)**

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2014.

	Investments at Fair Value as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Money market	\$ 38,153	\$ -	\$ -	\$ 38,153
Mutual funds	1,032,037	-	-	1,032,037
Common stock	894,212	-	-	894,212
Government securities	-	66,128	-	66,128
Corporate bonds	-	149,913	-	149,913
	<u>\$ 1,964,402</u>	<u>\$ 216,041</u>	<u>\$ -</u>	<u>\$ 2,180,443</u>

**Note D - Property and Equipment**

Property and equipment as of June 30, 2014 and 2013 consists of:

	2014	2013
Land and improvements	\$ 1,515,315	\$ 1,515,315
Building and improvements	11,668,651	11,608,641
Furniture and fixtures	120,672	118,133
Equipment	1,137,035	1,211,025
Vehicles	228,381	217,183
	<u>14,670,054</u>	<u>14,670,297</u>
Less accumulated depreciation	<u>(3,755,905)</u>	<u>(3,253,117)</u>
	<u>\$ 10,914,149</u>	<u>\$ 11,417,180</u>

**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, 2014 and 2013, were 0.62% and 0.57%, respectively. The balance outstanding on the loan was \$5,534,631 and \$6,925,089 at June 30, 2014 and 2013, respectively.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note E - Related Party Loan (Continued)**

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, 2014 and 2013.

Principal payments due on long-term debt for the fiscal years subsequent to June 30, 2014 are as follows:

Fiscal Year Ending June 30,	
2015	\$ 484,193
2016	495,000
2017	510,000
2018	530,000
2019	545,000
Thereafter	<u>2,970,438</u>
	<u><u>\$ 5,534,631</u></u>

**Note F - Net Assets**

Temporarily restricted net assets at June 30, 2014 and 2013 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, 2014 and 2013 represent amounts designated by the Board for the program guarantee fund.

Total net assets set aside for the program guarantee fund are \$1,622,209 and \$1,422,209 as of June 30, 2014 and 2013, 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 18.89% and 19.55% of participants' salaries during the years ended June 30, 2014 and 2013, respectively. The Organization's CERS expenses for the years ended June 30, 2014 and 2013 were \$652,848 and \$659,679, respectively.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**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 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 \$185,518 and \$166,637 for the years ended June 30, 2014 and 2013, 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.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**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:

	<u>2014</u>	<u>2013</u>
KACo All Lines Fund	\$ 1,230,678	\$ 1,218,026
KACo Workers' Compensation Fund	1,150,674	1,147,112
KACo Unemployment Insurance Fund	409,530	392,580
KACo Leasing Trust	902,106	866,776
KACo Insurance Agency, Inc.	101,407	111,501
KACo Commonwealth Insurance Company	71,755	75,170
Amount related to joint use of office space and equipment (Note B: 9)	<u>51,637</u>	<u>79,012</u>
	3,917,787	3,890,177
Elimination of KACo Insurance Agency, Inc.	<u>(106,779)</u>	<u>(118,612)</u>
	<u><u>\$ 3,811,008</u></u>	<u><u>\$ 3,771,565</u></u>

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:

	<u>2014</u>	<u>2013</u>
KACo All Lines Fund	\$ 1,089,823	\$ 964,455
KACo Workers' Compensation Fund	1,032,467	957,412
KACo Unemployment Insurance Fund	267,600	270,000
KACo Leasing Trust	380,500	385,000
KACo Insurance Agency, Inc.	159,400	160,000
KACo Commonwealth Insurance Company	245,200	253,570
KACo Financial Advisors, Inc.	<u>25,000</u>	<u>-</u>
	3,199,990	2,990,437
Elimination of KACo Insurance Agency, Inc.	(159,400)	(160,000)
Elimination of KACo Financial Advisors, Inc.	<u>(25,000)</u>	<u>-</u>
	<u><u>\$ 3,015,590</u></u>	<u><u>\$ 2,830,437</u></u>

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note H - Related Party Transactions (Continued)**

The license fees are summarized as follows:

	<u>2014</u>	<u>2013</u>
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	<u>1,000</u>	<u>1,000</u>
	6,000	6,000
Elimination of KACo Insurance Agency, Inc.	<u>(1,000)</u>	<u>(1,000)</u>
	<u>\$ 5,000</u>	<u>\$ 5,000</u>

A summary of all amounts due the Organization by related parties at June 30 is as follows:

	<u>2014</u>	<u>2013</u>
KACo Leasing Trust	<u>\$ 171,711</u>	<u>\$ 217,605</u>

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

	<u>2014</u>	<u>2013</u>
Program Administrative Fee		
KACo All Lines Fund	\$ 269,431	\$ 248,861
KACo Workers' Compensation Fund	230,726	210,034
KACo Unemployment Insurance Fund	26,670	33,970
KACo Leasing Trust	49,294	84,156
KACo Insurance Agency, Inc.	56,892	47,189
KACo Commonwealth Insurance Company	36,245	55,725
Amount related to joint use of office space and equipment	<u>-</u>	<u>51,637</u>
	669,258	731,572
Elimination of KACo Insurance Agency, Inc.	<u>(56,892)</u>	<u>(52,860)</u>
	<u>\$ 612,366</u>	<u>\$ 678,712</u>

Most of the Organization's insurance is provided by KALF and KWC. During 2014 and 2013, the Organization incurred total insurance expense under these agreements of \$109,941 and \$89,148, respectively.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note I - KACo Convention**

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Convention Income		
Convention registration	\$ 156,350	\$ 158,781
Convention exhibitors	51,175	46,150
Convention sponsors	<u>97,000</u>	<u>96,400</u>
	304,525	301,331
Convention Expenses		
	<u>258,681</u>	<u>266,054</u>
	<u>\$ 45,844</u>	<u>\$ 35,277</u>

**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 \$5,112 was recorded under this lease during the year ended June 30, 2014.

Future minimum lease payments under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 12,269
2016	12,269
2017	<u>10,224</u>
	<u>\$ 34,762</u>

**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.



**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note L - Income Taxes**

The provision for income taxes consists of the following:

	<u>2014</u>		
	<u>KACo Insurance Agency, Inc.</u>	<u>KACo Financial Advisors, Inc.</u>	<u>Consolidated</u>
Current:			
Federal	\$ 79,583	\$ 17,797	\$ 97,380
State and local	<u>14,973</u>	<u>2,272</u>	<u>17,245</u>
Income Tax Expense	<u>\$ 94,556</u>	<u>\$ 20,069</u>	<u>\$ 114,625</u>
	<u>2013</u>		
	<u>KACo Insurance Agency, Inc.</u>	<u>KACo Financial Advisors, Inc.</u>	<u>Consolidated</u>
Current:			
Federal	\$ 50,258	\$ 30,853	\$ 81,111
State and local	<u>11,494</u>	<u>5,098</u>	<u>16,592</u>
Income Tax Expense	<u>\$ 61,752</u>	<u>\$ 35,951</u>	<u>\$ 97,703</u>

## **Supplementary Information**

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Schedules of Program and Supporting Services**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Bank charges	\$ 2,750	\$ 5,185
Board expense	19,925	15,926
Commissions	46,462	54,196
Communication, promotion and liaison	309,794	273,259
Computer supplies	76,627	88,197
Consulting	1,575	550
Depreciation	596,210	665,018
Endorsement fee	50,312	40,340
Equipment and maintenance	33,215	41,305
Fringe benefits	1,478,489	1,547,017
Grounds and building maintenance	49,397	20,876
Insurance	115,522	90,420
Janitorial service	47,444	46,327
Miscellaneous	25,816	23,821
Office supplies	26,477	28,380
Postage	19,023	23,707
Premiums ceded	9,418	73,892
Printing	15,372	11,035
Professional dues	10,310	6,298
Professional fees	1,069,877	1,242,776
Public official bond expense	416,961	402,979
Publications	8,808	6,525
Salaries	3,576,451	3,449,971
Telephone	45,059	55,806
Training session expenses	25,967	30,488
Travel expenses	1,963	-
Utilities	65,834	69,227
	<u>\$ 8,145,058</u>	<u>\$ 8,313,521</u>

See independent auditor's report.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**KACo Insurance Agency, Inc. Statement of Cash Flows**  
**Year Ended June 30, 2014**

	<u>2014</u>
Cash Flows from Operating Activities	
Changes in net assets	\$ 150,221
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Changes in:	
Accounts receivable	(12,391)
Prepaid expenses	(10,985)
Accounts payable and accrued liabilities	(30,197)
Accrued income taxes	-
Unearned revenues	<u>(12,322)</u>
Net Cash Provided by Operating Activities	84,326
Cash Flows from Financing Activities	
Payment of dividend declared	<u>(600,000)</u>
Decrease in Cash and Cash Equivalents	(515,674)
Cash and Cash Equivalents at Beginning of Year	<u>770,386</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 254,712</u></u>
Supplemental Disclosure:	
Cash paid for income taxes	\$ 132,153

See independent auditor's report.

## **Consolidating Information**

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidating Statement of Financial Position**  
**June 30, 2014**

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 3,650,082	\$ 254,712	\$ 247,714	\$ -	\$ 4,152,508
Accounts receivable	2,493	44,919	4,500	-	51,912
Due from related parties	171,711	-	-	-	171,711
Assets held for sale	927,140	-	-	-	927,140
Note receivable, current portion	-	-	51,010	-	51,010
Prepaid expenses	19,627	63,845	3,602	(56,892)	30,182
Investments	558,234	-	-	-	558,234
<b>Total Current Assets</b>	<b>5,329,287</b>	<b>363,476</b>	<b>306,826</b>	<b>(56,892)</b>	<b>5,942,697</b>
Program Guarantee Investments	1,622,209	-	-	-	1,622,209
Property and Equipment, net	10,914,149	-	-	-	10,914,149
Note Receivable, net of current portion	-	-	104,600	-	104,600
Investment in Subsidiary	300,000	-	-	(300,000)	-
<b>Total Assets</b>	<b>\$ 18,165,645</b>	<b>\$ 363,476</b>	<b>\$ 411,426</b>	<b>\$ (356,892)</b>	<b>\$ 18,583,655</b>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	\$ 54,911	\$ 32,185	\$ 7,030	\$ -	\$ 94,126
Accrued compensated absences	457,506	-	-	-	457,506
Unearned revenues	669,258	38,068	-	(56,892)	650,434
Current portion of related party loan	484,193	-	-	-	484,193
<b>Total Current Liabilities</b>	<b>1,665,868</b>	<b>70,253</b>	<b>7,030</b>	<b>(56,892)</b>	<b>1,686,259</b>
Related Party Loan, net of current portion	5,050,438	-	-	-	5,050,438
<b>Total Liabilities</b>	<b>6,716,306</b>	<b>70,253</b>	<b>7,030</b>	<b>(56,892)</b>	<b>6,736,697</b>
<b>Commitments and Contingencies</b>					
<b>Net Assets/Equity</b>					
Unrestricted					
Board designated - program guarantee fund	1,200,000	-	-	-	1,200,000
Undesignated	9,827,130	-	-	-	9,827,130
<b>Total Unrestricted</b>	<b>11,027,130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,027,130</b>
Temporarily restricted	422,209	-	-	-	422,209
Common stock, no par	-	-	300,000	(300,000)	-
Retained earnings	-	293,223	104,396	-	397,619
<b>Total Net Assets/Equity</b>	<b>11,449,339</b>	<b>293,223</b>	<b>404,396</b>	<b>(300,000)</b>	<b>11,846,958</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 18,165,645</b>	<b>\$ 363,476</b>	<b>\$ 411,426</b>	<b>\$ (356,892)</b>	<b>\$ 18,583,655</b>

See independent auditor's report.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidating Statement of Unrestricted Activities**  
**Year Ended June 30, 2014**

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Changes in unrestricted net assets					
Revenues, gains and other support					
Program administration fees	\$ 3,917,787	\$ -	\$ -	\$ (106,779)	\$ 3,811,008
Management fees	3,199,990	-	-	(184,400)	3,015,590
Advisory fees	-	-	1,023,080	-	1,023,080
License fees	6,000	-	-	(1,000)	5,000
Public official bond revenue	-	427,527	-	-	427,527
Commissions - other	-	645,374	-	-	645,374
Membership dues	195,450	-	-	-	195,450
Training session fees	41,975	-	-	-	41,975
Interest and dividend income	715,586	688	5,861	(600,000)	122,135
Rental income	47,000	-	-	-	47,000
Endorsement and marketing fees	14,910	-	-	-	14,910
KACo convention, net	45,844	-	-	-	45,844
Gain on disposal of fixed assets	5,032	-	-	-	5,032
Net realized and unrealized gains on investments	134,717	-	-	-	134,717
Miscellaneous	9,942	-	-	-	9,942
	<u>8,334,233</u>	<u>1,073,589</u>	<u>1,028,941</u>	<u>(892,179)</u>	<u>9,544,584</u>
Expenses					
Program services	4,978,780	523,153	922,769	-	6,424,702
Supporting services	1,659,594	305,659	47,282	(292,179)	1,720,356
Interest expense	38,521	-	-	-	38,521
Provision for income taxes	-	94,556	20,069	-	114,625
	<u>6,676,895</u>	<u>923,368</u>	<u>990,120</u>	<u>(292,179)</u>	<u>8,298,204</u>
Increase in Unrestricted Net Assets	1,657,338	150,221	38,821	(600,000)	1,246,380
Unrestricted Net Assets at Beginning of Year	9,369,792	743,002	365,575	(300,000)	10,178,369
Dividend issued to KACo	-	(600,000)	-	600,000	-
Unrestricted Net Assets at End of Year	<u>\$ 11,027,130</u>	<u>\$ 293,223</u>	<u>\$ 404,396</u>	<u>\$ (300,000)</u>	<u>\$ 11,424,749</u>

See independent auditor's report.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidating Schedule of Program and Supporting Services**  
**Year Ended June 30, 2014**

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Bank charges	\$ 2,750	\$ -	\$ -	\$ -	\$ 2,750
Board expense	-	12,449	7,476	-	19,925
Commissions	-	46,462	-	-	46,462
Communication, promotion and liaison	308,994	800	-	-	309,794
Computer supplies	76,627	-	-	-	76,627
Consulting	-	-	1,575	-	1,575
Depreciation	596,210	-	-	-	596,210
Endorsement fee	-	50,312	-	-	50,312
Equipment and maintenance	33,215	-	-	-	33,215
Fringe benefits	1,478,489	-	-	-	1,478,489
Grounds and building maintenance	49,397	-	-	-	49,397
Insurance	93,416	22,106	-	-	115,522
Janitorial service	47,444	-	-	-	47,444
Miscellaneous	24,205	150	1,461	-	25,816
Office supplies	26,477	-	-	-	26,477
Postage	19,023	-	-	-	19,023
Premiums ceded	-	9,418	-	-	9,418
Printing	15,372	-	-	-	15,372
Professional dues	10,310	-	-	-	10,310
Professional fees	135,726	1,575	932,576	-	1,069,877
Program administration, management and license fees	-	267,179	25,000	(292,179)	-
Public official bond expense	-	416,961	-	-	416,961
Publications	8,808	-	-	-	8,808
Salaries	3,576,451	-	-	-	3,576,451
Telephone	45,059	-	-	-	45,059
Training session expenses	24,567	1,400	-	-	25,967
Travel expenses	-	-	1,963	-	1,963
Utilities	65,834	-	-	-	65,834
	<u>\$ 6,638,374</u>	<u>\$ 828,812</u>	<u>\$ 970,051</u>	<u>\$ (292,179)</u>	<u>\$ 8,145,058</u>

See independent auditor's report.