

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Financial Statements**  
**Years Ended June 30, 2015 and 2014**

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

Table of Contents  
June 30, 2015 and 2014

	<u>Page</u>
Independent Auditor's Report .....	1 - 2
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities and Changes in Net Assets .....	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6 - 16
<b>Supplementary Information</b>	
Consolidated Schedules of Program and Supporting Services .....	17
KACo Insurance Agency, Inc. Statement of Cash Flows .....	18
<b>Consolidating Information</b>	
Consolidating Statement of Financial Position.....	19
Consolidating Statement of Unrestricted Activities.....	20
Consolidating Schedule of Program and Supporting Services .....	21

## **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, 2015 and 2014 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.

## **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, 2015 and 2014, 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 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.

A handwritten signature in black ink, appearing to read "M. C. Chilton, Muddly, LLP". The signature is written in a cursive, flowing style.

Louisville, Kentucky  
September 11, 2015

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 2,938,289	\$ 4,152,508
Accounts receivable	23,813	51,912
Due from related parties	121,863	171,711
Assets held for sale	927,140	927,140
Note receivable, current portion	51,517	51,010
Prepaid expenses	40,662	30,182
	<u>4,103,284</u>	<u>5,384,463</u>
Total Current Assets	4,103,284	5,384,463
Investments	4,845,767	2,180,443
Property and equipment, net	10,380,304	10,914,149
Note receivable, net of current portion	54,077	104,600
	<u>54,077</u>	<u>104,600</u>
Total Assets	<u>\$ 19,383,432</u>	<u>\$ 18,583,655</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 108,364	\$ 94,126
Accrued compensated absences	699,221	457,506
Association health plan payable	388,926	-
Unearned revenues	660,809	650,434
Current portion of related party loan	530,000	484,193
	<u>530,000</u>	<u>484,193</u>
Total Current Liabilities	2,387,320	1,686,259
Related party loan, net of current portion	4,213,251	5,050,438
	<u>4,213,251</u>	<u>5,050,438</u>
Total Liabilities	6,600,571	6,736,697
Net Assets		
Unrestricted		
Board designated - program guarantee fund	1,450,000	1,200,000
Board designated - association health plan reserve	14,210	-
Undesignated	10,896,442	10,224,749
	<u>10,896,442</u>	<u>10,224,749</u>
Total unrestricted	12,360,652	11,424,749
Temporarily restricted	422,209	422,209
	<u>422,209</u>	<u>422,209</u>
Total Net Assets	<u>12,782,861</u>	<u>11,846,958</u>
Total Liabilities and Net Assets	<u>\$ 19,383,432</u>	<u>\$ 18,583,655</u>

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2015 and 2014**

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Program administration fees	\$ 3,891,759	\$ -	\$ 3,891,759	\$ 3,811,008	\$ -	\$ 3,811,008
Management fees	3,077,669	-	3,077,669	3,015,590	-	3,015,590
Advisory fees	505,363	-	505,363	1,023,080	-	1,023,080
License fees	5,000	-	5,000	5,000	-	5,000
Public official bond revenue	462,295	-	462,295	427,527	-	427,527
Commissions - other	590,929	-	590,929	645,374	-	645,374
Membership dues	188,742	-	188,742	195,450	-	195,450
Training session fees	53,750	-	53,750	41,975	-	41,975
Interest and dividend income	242,861	-	242,861	122,135	-	122,135
Rental income	43,500	-	43,500	47,000	-	47,000
Endorsement and marketing fees	12,281	-	12,281	14,910	-	14,910
Service fees	14,210	-	14,210	-	-	-
KACo convention, net	8,707	-	8,707	45,844	-	45,844
Gain on disposal of fixed assets	14,000	-	14,000	5,032	-	5,032
Net realized and unrealized gains on investments	21,160	-	21,160	134,717	-	134,717
Miscellaneous	141	-	141	9,942	-	9,942
	<u>9,132,367</u>	<u>-</u>	<u>9,132,367</u>	<u>9,544,584</u>	<u>-</u>	<u>9,544,584</u>
Expenses						
Program services	6,230,146	-	6,230,146	6,424,702	-	6,424,702
Supporting services	1,831,661	-	1,831,661	1,720,356	-	1,720,356
Interest expense	51,196	-	51,196	38,521	-	38,521
Provision for income taxes	83,461	-	83,461	114,625	-	114,625
	<u>8,196,464</u>	<u>-</u>	<u>8,196,464</u>	<u>8,298,204</u>	<u>-</u>	<u>8,298,204</u>
Changes in Net Assets	935,903	-	935,903	1,246,380	-	1,246,380
Net Assets at Beginning of Year	11,424,749	422,209	11,846,958	10,178,369	422,209	10,600,578
Net Assets at End of Year	<u>\$ 12,360,652</u>	<u>\$ 422,209</u>	<u>\$ 12,782,861</u>	<u>\$ 11,424,749</u>	<u>\$ 422,209</u>	<u>\$ 11,846,958</u>

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 935,903	\$ 1,246,380
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(21,160)	(134,717)
Depreciation	569,293	596,210
Gain on sale of property and equipment	(14,000)	(5,032)
Changes in:		
Accounts receivable	28,099	271
Due from related parties	49,848	45,894
Prepaid expenses	(10,480)	(13,323)
Accounts payable and accrued liabilities	14,238	(35,223)
Accrued compensated absences	241,715	10,549
Association health plan payable	388,926	-
Unearned revenues	10,375	(78,668)
Net Cash Provided by Operating Activities	<u>2,192,757</u>	<u>1,632,341</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(35,448)	(109,647)
Proceeds from sale of property and equipment	14,000	21,500
Purchases of investments	(3,447,680)	(2,463,546)
Proceeds from sales of investments	803,516	417,820
Repayments of note receivable	50,016	48,530
Net Cash Used in Investing Activities	<u>(2,615,596)</u>	<u>(2,085,343)</u>
Cash Flows from Financing Activities		
Principal payments on related party loan	(791,380)	(1,390,458)
Payments on capital lease obligation	-	(13,165)
Net Cash Used in Financing Activities	<u>(791,380)</u>	<u>(1,403,623)</u>
Decrease in Cash and Cash Equivalents	(1,214,219)	(1,856,625)
Cash and Cash Equivalents at Beginning of Year	<u>4,152,508</u>	<u>6,009,133</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,938,289</u>	<u>\$ 4,152,508</u>
Supplemental Disclosure:		
Cash paid for interest	\$ 41,848	\$ 40,881
Cash paid for income taxes	94,102	167,668

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

**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, 2015 and 2014**

**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, 2015 and 2014.
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, 2015 and 2014 was \$569,293 and \$596,210, 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 \$616,139 and \$612,366 at June 30, 2015 and 2014, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year-end of \$44,670 and \$38,068 at June 30, 2015 and 2014, respectively.
10. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled \$66,347 and \$75,245 in 2015 and 2014, respectively.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2015 and 2014**

**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, 2015 or 2014.

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 2011-2014 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.

In April 2015, KACo entered into an agreement to sell the properties classified as assets held for sale in the accompanying consolidated statements of financial position for \$930,000. Management expects the transaction to close in the second quarter of fiscal year 2016.

13. Reclassifications: Certain reclassifications were made to the June 30, 2014 financial statements to conform to the June 30, 2015 presentation.

**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.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2015 and 2014**

**Note C - Investments (Continued)**

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, 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:				
Small cap	150,885	-	-	150,885
Mid cap	245,002	-	-	245,002
International blend	645,684	-	-	645,684
Alternatives	238,804	-	-	238,804
Other equities	100,319	-	-	100,319
Real estate	273,365	-	-	273,365
Fixed income	347,936	-	-	347,936
Debt securities:				
Government bonds	-	25,466	-	25,466
Corporate bonds	-	680,517	-	680,517
Equity securities:				
Consumer discretionary	641,140	-	-	641,140
Energy	175,089	-	-	175,089
Financials	383,857	-	-	383,857
Healthcare	428,538	-	-	428,538
Industrials	117,812	-	-	117,812
Services	25,900	-	-	25,900
Technology	303,112	-	-	303,112
	<u>\$ 4,139,784</u>	<u>\$ 705,983</u>	<u>\$ -</u>	<u>\$ 4,845,767</u>

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2015 and 2014**

**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, 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:				
Small cap	110,258	-	-	110,258
Mid cap	149,453	-	-	149,453
International blend	317,800	-	-	317,800
Alternatives	70,888	-	-	70,888
Real estate	175,874	-	-	175,874
Fixed income	207,764	-	-	207,764
Debt securities:				
Government bonds	-	66,128	-	66,128
Corporate bonds	-	149,913	-	149,913
Equity securities:				
Consumer discretionary	152,366	-	-	152,366
Construction	17,454	-	-	17,454
Energy	146,472	-	-	146,472
Financials	175,958	-	-	175,958
Healthcare	132,573	-	-	132,573
Industrials	75,031	-	-	75,031
Services	17,459	-	-	17,459
Technology	176,899	-	-	176,899
	<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, 2015 and 2014 consists of:

	2015	2014
Land and improvements	\$ 1,515,315	\$ 1,515,315
Building and improvements	11,668,651	11,668,651
Furniture and fixtures	29,575	120,672
Equipment	1,044,007	1,137,035
Vehicles	194,478	228,381
	<u>14,452,026</u>	<u>14,670,054</u>
Less accumulated depreciation	<u>(4,071,722)</u>	<u>(3,755,905)</u>
	<u>\$ 10,380,304</u>	<u>\$ 10,914,149</u>

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2015 and 2014**

**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, 2015 and 2014, were 1.00% and 0.62%, respectively. The balance outstanding on the loan was \$4,743,251 and \$5,534,631 at June 30, 2015 and 2014, respectively.

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

As a result of this debt arrangement, KACo is required to maintain certain financial ratios with US Bank. KACo was in compliance with all loan covenants at June 30, 2015 and 2014.

Principal payments due on long-term debt for the fiscal years subsequent to June 30, 2015 are as follows:

Fiscal Year Ending June 30,	
2016	\$ 530,000
2017	550,000
2018	570,000
2019	590,000
2020	610,000
Thereafter	<u>1,893,251</u>
	<u><u>\$ 4,743,251</u></u>

**Note F - Net Assets**

Temporarily restricted net assets at June 30, 2015 and 2014 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, 2015 and 2014 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 \$1,872,209 and \$1,622,209 as of June 30, 2015 and 2014, respectively.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2015 and 2014**

**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 17.67% and 18.89% of participants' salaries during the years ended June 30, 2015 and 2014, respectively. The Organization's CERS expenses for the years ended June 30, 2015 and 2014 were \$630,571 and \$652,848, respectively.

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

The Organization also sponsors a 401(k) defined contribution plan ("the 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 \$194,511 and \$185,518 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014**

**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>2015</u>	<u>2014</u>
KACo All Lines Fund	\$ 1,262,013	\$ 1,230,678
KACo Workers' Compensation Fund	1,184,645	1,150,674
KACo Unemployment Insurance Fund	412,790	409,530
KACo Leasing Trust	957,895	902,106
KACo Insurance Agency, Inc.	105,998	101,407
KACo Commonwealth Insurance Company	74,416	71,755
Amount related to joint use of office space and equipment (Note B: 9)	-	51,637
	<u>3,997,757</u>	<u>3,917,787</u>
Elimination of KACo Insurance Agency, Inc.	<u>(105,998)</u>	<u>(106,779)</u>
	<u>\$ 3,891,759</u>	<u>\$ 3,811,008</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>2015</u>	<u>2014</u>
KACo All Lines Fund	\$ 1,098,572	\$ 1,089,823
KACo Workers' Compensation Fund	1,082,797	1,032,467
KACo Unemployment Insurance Fund	267,600	267,600
KACo Leasing Trust	380,500	380,500
KACo Insurance Agency, Inc.	159,400	159,400
KACo Commonwealth Insurance Company	248,200	245,200
KACo Financial Advisors, Inc.	<u>25,000</u>	<u>25,000</u>
	3,262,069	3,199,990
Elimination of KACo Insurance Agency, Inc.	(159,400)	(159,400)
Elimination of KACo Financial Advisors, Inc.	<u>(25,000)</u>	<u>(25,000)</u>
	<u>\$ 3,077,669</u>	<u>\$ 3,015,590</u>

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2015 and 2014**

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

The license fees are summarized as follows:

	<u>2015</u>	<u>2014</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>2015</u>	<u>2014</u>
KACo Leasing Trust	<u>\$ 121,863</u>	<u>\$ 171,711</u>

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

	<u>2015</u>	<u>2014</u>
Program Administrative Fee		
KACo All Lines Fund	\$ 252,773	\$ 269,431
KACo Workers' Compensation Fund	225,499	230,726
KACo Unemployment Insurance Fund	36,899	26,670
KACo Leasing Trust	81,522	49,294
KACo Insurance Agency, Inc.	26,003	56,892
KACo Commonwealth Insurance Company	<u>19,446</u>	<u>36,245</u>
	642,142	669,258
Elimination of KACo Insurance Agency, Inc.	<u>(26,003)</u>	<u>(56,892)</u>
	<u>\$ 616,139</u>	<u>\$ 612,366</u>

Most of the Organization's insurance is provided by KALF and KWC. During 2015 and 2014, the Organization incurred total insurance expense under these agreements of \$113,087 and \$109,941, respectively.



**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2015 and 2014**

**Note I - KACo Convention**

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Convention Income		
Convention registration	\$ 143,049	\$ 156,350
Convention exhibitors	49,855	51,175
Convention sponsors	<u>108,050</u>	<u>97,000</u>
	300,954	304,525
Convention Expenses	<u>292,247</u>	<u>258,681</u>
	<u>\$ 8,707</u>	<u>\$ 45,844</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 \$12,269 and \$5,112 was recorded under this lease during the years ended June 30, 2015 and 2014, respectively.

Future minimum lease payments under this lease are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2016	\$ 12,269
2017	<u>10,224</u>
	<u>\$ 22,493</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, 2015 and 2014**

**Note L - Income Taxes**

The provision for income taxes consists of the following:

	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
	2014		
	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Consolidated
Current:			
Federal	\$ 79,583	\$ 17,797	\$ 97,380
State and local	14,973	2,272	17,245
Income Tax Expense	\$ 94,556	\$ 20,069	\$ 114,625

## **Supplementary Information**

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidated Schedules of Program and Supporting Services**  
**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Bank charges	\$ 3,005	\$ 2,750
Board expense	21,363	19,925
Commissions	18,560	46,462
Communication, promotion and liaison	326,627	309,794
Computer supplies	86,075	76,627
Consulting	1,625	1,575
Depreciation	569,293	596,210
Endorsement fee	38,045	50,312
Equipment and maintenance	34,229	33,215
Fringe benefits	1,786,195	1,478,489
Grounds and building maintenance	46,626	49,397
Insurance	125,182	115,522
Janitorial service	46,735	47,444
Miscellaneous	26,234	25,816
Office supplies	31,016	26,477
Postage	20,612	19,023
Premiums ceded	-	9,418
Printing	29,056	15,372
Professional dues	10,054	10,310
Professional fees	634,250	1,069,877
Public official bond expense	454,036	416,961
Publications	5,167	8,808
Salaries	3,598,960	3,576,451
Telephone	48,385	45,059
Training session expenses	30,412	25,967
Travel expenses	1,750	1,963
Utilities	68,315	65,834
	<u>\$ 8,061,807</u>	<u>\$ 8,145,058</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, 2015**

	<u>2015</u>
Cash Flows from Operating Activities	
Changes in net assets	\$ 142,064
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Changes in:	
Accounts receivable	21,106
Prepaid expenses	31,552
Accounts payable and accrued liabilities	553
Unearned revenues	<u>6,602</u>
Net Cash Provided by Operating Activities	<u>201,877</u>
Increase in Cash and Cash Equivalents	201,877
Cash and Cash Equivalents at Beginning of Year	<u>254,712</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 456,589</u></u>
Supplemental Disclosure:	
Cash paid for income taxes	\$ 82,540

See independent auditor's report.

## **Consolidating Information**

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidating Statement of Financial Position**  
**June 30, 2015**

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 2,193,323	\$ 456,589	\$ 288,377	\$ -	\$ 2,938,289
Accounts receivable	-	23,813	-	-	23,813
Due from related parties	121,863	-	-	-	121,863
Assets held for sale	927,140	-	-	-	927,140
Note receivable, current portion	-	-	51,517	-	51,517
Prepaid expenses	19,466	32,293	14,906	(26,003)	40,662
Total Current Assets	3,261,792	512,695	354,800	(26,003)	4,103,284
Investments	4,845,767	-	-	-	4,845,767
Property and Equipment, net	10,380,304	-	-	-	10,380,304
Note Receivable, net of current portion	-	-	54,077	-	54,077
Investment in Subsidiary	300,000	-	-	(300,000)	-
Total Assets	<u>\$ 18,787,863</u>	<u>\$ 512,695</u>	<u>\$ 408,877</u>	<u>\$ (326,003)</u>	<u>\$ 19,383,432</u>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	\$ 75,626	\$ 32,738	\$ -	\$ -	\$ 108,364
Accrued compensated absences	699,221	-	-	-	699,221
Association health plan payable	388,926	-	-	-	388,926
Unearned revenues	642,142	44,670	-	(26,003)	660,809
Current portion of related party loan	530,000	-	-	-	530,000
Total Current Liabilities	2,335,915	77,408	-	(26,003)	2,387,320
Related Party Loan, net of current portion	4,213,251	-	-	-	4,213,251
Total Liabilities	6,549,166	77,408	-	(26,003)	6,600,571
<b>Commitments and Contingencies</b>					
<b>Net Assets/Equity</b>					
<b>Unrestricted</b>					
Board designated - program guarantee fund	1,450,000	-	-	-	1,450,000
Board designated - association health plan reserve	14,210	-	-	-	14,210
Undesignated	10,352,278	-	-	-	10,352,278
Total Unrestricted	11,816,488	-	-	-	11,816,488
Temporarily restricted	422,209	-	-	-	422,209
Common stock, no par	-	-	300,000	(300,000)	-
Retained earnings	-	435,287	108,877	-	544,164
Total Net Assets/Equity	12,238,697	435,287	408,877	(300,000)	12,782,861
Total Liabilities and Net Assets	<u>\$ 18,787,863</u>	<u>\$ 512,695</u>	<u>\$ 408,877</u>	<u>\$ (326,003)</u>	<u>\$ 19,383,432</u>

See independent auditor's report.

**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidating Statement of Unrestricted Activities**  
**Year Ended June 30, 2015**

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Changes in unrestricted net assets					
Revenues, gains and other support					
Program administration fees	\$ 3,997,757	\$ -	\$ -	\$ (105,998)	\$ 3,891,759
Management fees	3,262,069	-	-	(184,400)	3,077,669
Advisory fees	-	-	505,363	-	505,363
License fees	6,000	-	-	(1,000)	5,000
Public official bond revenue	-	462,295	-	-	462,295
Commissions - other	-	590,929	-	-	590,929
Membership dues	188,742	-	-	-	188,742
Training session fees	53,750	-	-	-	53,750
Interest and dividend income	237,651	691	4,519	-	242,861
Rental income	43,500	-	-	-	43,500
Endorsement and marketing fees	12,281	-	-	-	12,281
Service fees	14,210	-	-	-	14,210
KACo convention, net	8,707	-	-	-	8,707
Gain on disposal of fixed assets	14,000	-	-	-	14,000
Net realized and unrealized gains on investments	21,160	-	-	-	21,160
Miscellaneous	141	-	-	-	141
	<u>7,859,968</u>	<u>1,053,915</u>	<u>509,882</u>	<u>(291,398)</u>	<u>9,132,367</u>
Expenses					
Program services	5,264,560	510,641	454,945	-	6,230,146
Supporting services	1,754,854	318,007	50,198	(291,398)	1,831,661
Interest expense	51,196	-	-	-	51,196
Provision for income taxes	-	83,203	258	-	83,461
	<u>7,070,610</u>	<u>911,851</u>	<u>505,401</u>	<u>(291,398)</u>	<u>8,196,464</u>
Increase in Unrestricted Net Assets	789,358	142,064	4,481	-	935,903
Unrestricted Net Assets at Beginning of Year	<u>11,027,130</u>	<u>293,223</u>	<u>404,396</u>	<u>(300,000)</u>	<u>11,424,749</u>
Unrestricted Net Assets at End of Year	<u>\$ 11,816,488</u>	<u>\$ 435,287</u>	<u>\$ 408,877</u>	<u>\$ (300,000)</u>	<u>\$ 12,360,652</u>

See independent auditor's report.



**Kentucky Association of Counties, Inc. and Subsidiaries**  
**Consolidating Schedule of Program and Supporting Services**  
**Year Ended June 30, 2015**

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Bank charges	\$ 3,005	\$ -	\$ -	\$ -	\$ 3,005
Board expense	-	13,695	7,668	-	21,363
Commissions	-	18,560	-	-	18,560
Communication, promotion and liaison	320,757	5,870	-	-	326,627
Computer supplies	86,075	-	-	-	86,075
Consulting	-	-	1,625	-	1,625
Depreciation	569,293	-	-	-	569,293
Endorsement fee	-	38,045	-	-	38,045
Equipment and maintenance	34,229	-	-	-	34,229
Fringe benefits	1,786,195	-	-	-	1,786,195
Grounds and building maintenance	46,626	-	-	-	46,626
Insurance	95,786	29,396	-	-	125,182
Janitorial service	46,735	-	-	-	46,735
Miscellaneous	26,111	123	-	-	26,234
Office supplies	31,016	-	-	-	31,016
Postage	20,612	-	-	-	20,612
Printing	29,056	-	-	-	29,056
Professional dues	10,054	-	-	-	10,054
Professional fees	163,525	1,625	469,100	-	634,250
Program administration, management and license fees	-	266,398	25,000	(291,398)	-
Public official bond expense	-	454,036	-	-	454,036
Publications	5,167	-	-	-	5,167
Salaries	3,598,960	-	-	-	3,598,960
Telephone	48,385	-	-	-	48,385
Training session expenses	29,512	900	-	-	30,412
Travel expenses	-	-	1,750	-	1,750
Utilities	68,315	-	-	-	68,315
	<u>\$ 7,019,414</u>	<u>\$ 828,648</u>	<u>\$ 505,143</u>	<u>\$ (291,398)</u>	<u>\$ 8,061,807</u>

See independent auditor's report.