KENTUCKY ASSOCIATION OF COUNTIES
UNEMPLOYMENT COMPENSATION
SELF-INSURANCE FUND

FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

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DMLO
DEMING MALONE LIVESAY & OSTROFF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Trustees
Kentucky Association of Counties Unemployment
Compensation Self-Insurance Fund
Frankfort, Kentucky

We have audited the accompanying financial statements of Kentucky Association of Counties Unemployment Compensation Self-Insurance Fund which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Association of Counties Unemployment Compensation Self-Insurance Fund as of June 30, 2015 and 2014, and the changes in members' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
December 17, 2015

KENTUCKY ASSOCIATION OF COUNTIES
UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND

BALANCE SHEETS

June 30, 2015 and 2014

Assets	2015	2014
Cash and cash equivalents	$ 4,733,827	$ 5,171,251
Investments, at fair market value	4,260,646	2,744,730
Premiums receivable	1,730,707	1,896,007
Accrued interest receivable	15,079	6,035
Prepaid expenses	37,210	26,670
Total assets	$ 10,777,469	$ 9,844,693
Liabilities and Members' Equity		
Accounts payable	$ 3,298	$ 2,010
Unemployment compensation claims payable	672,119	297,845
Deferred revenue	1,743,001	1,893,658
Total liabilities	2,418,418	2,193,513
Members' equity	8,359,051	7,651,180
Total liabilities and members' equity	$ 10,777,469	$ 9,844,693

See Notes to Financial Statements.

KENTUCKY ASSOCIATION OF COUNTIES
UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY
Years Ended June 30, 2015 and 2014

	2015	2014
Revenues		
Member premiums, net	$ 3,670,887	$ 3,893,819
Investment income	119,816	71,482
Realized gain (loss) on sale of investments	7,773	(53,470)
Unrealized gain on investments	121	85,549
Total revenues	3,798,597	3,997,380
Expenses		
Unemployment compensation benefits	2,340,312	2,044,765
General and administrative expenses	481,814	469,516
KACO management fee	267,600	267,600
KACO royalty	1,000	1,000
Total expenses	3,090,726	2,782,881
Excess of revenues	707,871	1,214,499
Members' equity, beginning of year	7,651,180	6,436,681
Members' equity, end of year	$ 8,359,051	$ 7,651,180

See Notes to Financial Statements.

KENTUCKY ASSOCIATION OF COUNTIES
UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Cash received from member premiums	$ 3,685,530	$ 3,712,074
Investment income received	110,772	69,033
Unemployment compensation benefits paid	(1,966,038)	(2,297,153)
Cash paid to suppliers and others	(759,666)	(728,757)
Net cash provided by operating activities	1,070,598	755,197
Cash Flows from Investing Activities		
Purchase of investments	(3,119,338)	(2,040,091)
Proceeds from sale and maturities of investments	1,611,316	1,894,277
Net cash used in investing activities	(1,508,022)	(145,814)
Net (decrease) increase in cash and cash equivalents	(437,424)	609,383
Cash and cash equivalents at beginning of year	5,171,251	4,561,868
Cash and cash equivalents at end of year	$ 4,733,827	$ 5,171,251

See Notes to Financial Statements.

	2015	2014
Reconciliation of Excess of Revenues to Net Cash Provided by Operating Activities		
Excess of revenues	$ 707,871	$ 1,214,499
Adjustments to reconcile excess of revenues to net cash provided by operating activities:		
Realized (gain) loss on sale of investments	(7,773)	53,470
Unrealized gain on investments	(121)	(85,549)
Changes in assets and liabilities:		
Decrease (increase) in:		
Premiums receivable	165,300	(82,831)
Accrued interest receivable	(9,044)	(2,449)
Prepaid expenses	(10,540)	7,350
Increase (decrease) in:		
Accounts payable	1,288	2,010
Unemployment compensation claims payable	374,274	(252,388)
Deferred revenue	(150,657)	(98,915)
Total adjustments	362,727	(459,302)
Net cash provided by operating activities	$ 1,070,598	$ 755,197

KENTUCKY ASSOCIATION OF COUNTIES
UNEMPLOYMENT COMPENSATION SELF-INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Fund and Summary of Significant Accounting Policies

The Kentucky Association of Counties Unemployment Compensation Self-Insurance Fund (Fund) was formed by the Kentucky Association of Counties (KACO) to receive contributions from eligible members to be used to reimburse the Commonwealth of Kentucky for unemployment compensation benefits paid to eligible members' employees. Governmental entities located in Kentucky who are members of KACO are eligible to make annual contributions to the Fund as determined by the Trustees in lieu of making contributions to the Kentucky Unemployment Compensation Fund. Each member is jointly and severally liable for reimbursing the Commonwealth in an amount equal to the quarterly benefits paid that are attributable to services performed in the employ of any or all members of the Fund.

Summary of significant accounting policies:

This summary of significant accounting policies of the Kentucky Association of Counties Unemployment Compensation Self-Insurance Fund is presented to assist in the understanding of the Fund's financial statements. The financial statements and notes are representations of the Fund's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Method of accounting:

The accompanying financial statements of the Fund have been prepared on the accrual basis of accounting.

Estimates:

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Cash and cash equivalents:

For purposes of the statement of cash flows, the Fund considers only cash and investments with an original maturity date of three months or less to be cash and cash equivalents.

Investments and credit risk:

The Fund records all investments at fair market value. Fair value is established based upon readily determinable market quotations for debt securities.

The Fund has significant investments in U.S. governmental agency and mortgage-backed securities, corporate bonds & notes and equity securities held by Central Bank & Trust Company. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Because of the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet. The Fund considers all investments to be classified as available-for-sale. Cost basis is determined on historical purchase price.

Premiums receivable:

Premiums receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to premiums receivable. Amounts are past due when not paid by the discount date. As of June 30, 2015 and 2014, there is no allowance for doubtful accounts as balances are considered fully collectible.

Revenue recognition:

Member premiums revenue is recognized over the period to which the premiums relate. Premiums billed but not yet earned as of June 30, 2015 and 2014 are recorded as deferred revenue on the balance sheet.

Unemployment compensation claims payable:

The liability payable to the Commonwealth of Kentucky represents the actual benefits paid by the Commonwealth for the quarter ended June 30, 2015 and 2014.

Income taxes:

The Fund is exempt from income taxes under Section 115 of the Internal Revenue Code. However, income from certain activities not directly related to the Fund's tax-exempt purpose may be subject to taxation as unrelated business income.

As of June 30, 2015 and 2014, the Fund did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

Legal, regulatory and geographic risk:

Legal and regulatory risk is the risk that changes in the legal or regulatory environment in which an insurer operates will occur and create additional losses or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those currently recorded in the financial statements. The Fund is exposed to this risk, plus a geographic risk, by writing all of its business in Kentucky, thus increasing its exposure to a single jurisdiction.

Subsequent events:

Management has evaluated subsequent events through December 17, 2015, the date which the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Investments

Investments are carried at fair market value as determined based on quoted prices in active markets. Cash and investments held in trust by Central Bank & Trust Company at June 30, 2015 and 2014 consisted of the following:

	2015	2014
U.S. governmental agency and mortgage-backed securities:		
Federal Home Loan Bank	$1,031,674*	$ 833,537*
Federal National Mortgage	1,692,399*	865,207*
Other	296,481	340,019
	3,020,554	2,038,763
Corporate bonds and notes	949,146	705,967
Common stocks	290,946	
Total investments	$4,260,646	$2,744,730

*Represents more than 5 percent of the Fund's assets.

The aggregate fair market value of annual maturities of U.S. governmental agency and mortgage-backed securities and corporate bonds and notes at June 30, 2015, based upon stated maturity dates are as follows:

	Maturity	Cost	Fair Value
Due within one year	$ 275,000	$ 292,835	$ 280,814
Due after one year through five years	2,190,000	2,208,975	2,205,763
Due after five years through ten years	440,000	443,228	443,456
Due after ten years	1,011,952	1,021,096	1,039,667
	$3,916,952	$3,966,134	$3,969,700

Note 3. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active or inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2015 and 2014.

Common stocks - valued at the unadjusted quoted market price as of the financial statement date.

Corporate bonds and notes, U.S. governmental agency and mortgage-backed securities - valued using quoted market prices for similar assets.

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 Fund believes their valuation method is 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 Fund's assets at fair value as of June 30, 2015:

	Level 1	Level 2	Total
U.S. governmental agency and mortgage-backed securities		$3,020,554	$3,020,554
Corporate bonds		949,146	949,146
Common stocks			
Consumer goods	$ 59,389		59,389
Technology	57,993		57,993
Industrial goods	53,318		53,318
Healthcare	36,340		36,340
Services	36,107		36,107
Basic materials	35,595		35,595
Financial	12,204		12,204
	290,946		290,946
Total assets at fair value	$290,946	$3,969,700	$4,260,646

All investment held by the Fund as of June 30, 2014 are considered level 2 investments within the fair value hierarchy. See Note 2 for the detail of these investments.

Note 4. Members' Equity

Members' equity consists of separate accounts maintained for each member. Each member's equity balance is increased by its contributions and allocated share of investment and other revenues, and decreased by unemployment compensation benefits paid on its behalf, dividends distributed and the allocated share of other expenses. At June 30, 2015 and 2014, members' equity consisted of:

	2015	2014
Members with equity	$ 9,880,987	$ 9,316,860
Members with a deficit	(1,521,936)	(1,665,680)
Total members' equity	$ 8,359,051	$ 7,651,180

Note 5. Related Party Transactions

The Fund has a Program Administration Agreement whereby the Fund paid a set fee of $112,500 and $109,050 per quarter for 2015 and 2014, respectively, to KACO to provide management and administrative services for the Fund. The total fee is adjusted annually based upon the actual allocation of expenses covered by the agreement. For the years ended June 30, 2015 and 2014, actual expenses allocated to the Fund were $412,790 and $409,530, respectively. The excess payments of $37,210 and $26,670 for the years ended June 30, 2015 and 2014, respectively, will be utilized to reduce the Fund's future payment to KACO and is included in prepaid expenses on the June 30, 2015 and 2014 balance sheets. An additional management fee of $267,600 was paid to KACO for each of the years ended June 30, 2015 and 2014.

The Fund has a licensing agreement with KACO that requires the Fund to pay an annual royalty to KACO in return for the use of KACO's name and logo. The Fund paid royalties of $1,000 for each of the years ended June 30, 2015 and 2014.

Note 6. Concentration of Credit Risk

The Fund maintains its cash accounts at various banks in Kentucky. Accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At June 30, 2015, the uninsured cash balances totaled approximately $4,200,000.