

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Financial Statements
Years Ended June 30, 2018 and 2017

Kentucky Association of Counties, Inc. and Subsidiaries

Table of Contents
Years Ended June 30, 2018 and 2017

	<u>Page</u>
Independent Auditor's Report	1 - 2
Consolidated Financial Statements	
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 - 15
Supplementary Information	
Consolidated Schedules of Program and Supporting Services	16
KACo Insurance Agency, Inc. Statement of Cash Flows	17
Consolidating Information	
Consolidating Statement of Financial Position.....	18
Consolidating Statement of Unrestricted Activities.....	19
Consolidating Schedule of Program and Supporting Services	20



Independent Auditor's Report

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

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kentucky Association of Counties, Inc. and Subsidiaries ("the Organization"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Kentucky
Indiana
Ohio

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kentucky Association of Counties, Inc. and Subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 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.

MCM CPAs & Advisors LLP

Louisville, Kentucky
September 27, 2018

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,296,309	\$ 3,342,090
Accounts receivable	73,269	111,159
Due from related parties	9,184	39,104
Prepaid expenses	56,189	15,523
	<u>4,434,951</u>	<u>3,507,876</u>
Investments	6,671,457	6,082,852
Property and equipment, net	9,057,958	9,570,560
	<u>20,164,366</u>	<u>19,161,288</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 207,568	\$ 280,042
Accrued compensated absences	843,782	770,285
Association health plan payable	688,023	652,779
Unearned revenues	813,044	694,519
Current portion of related party loan	191,573	577,114
	<u>2,743,990</u>	<u>2,974,739</u>
Related party loan, net of current portion	-	422,340
	<u>2,743,990</u>	<u>3,397,079</u>
Commitments and Contingencies		
Net Assets		
Unrestricted		
Board designated - program guarantee fund	2,200,000	1,950,000
Board designated - association health plan reserve	109,268	85,961
Undesignated	14,688,899	13,306,039
	<u>16,998,167</u>	<u>15,342,000</u>
Total unrestricted	16,998,167	15,342,000
Temporarily restricted	422,209	422,209
	<u>17,420,376</u>	<u>15,764,209</u>
Total Net Assets	17,420,376	15,764,209
Total Liabilities and Net Assets	<u>\$ 20,164,366</u>	<u>\$ 19,161,288</u>

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Program administration fees	\$ 4,049,235	\$ -	\$ 4,049,235	\$ 4,018,719	\$ -	\$ 4,018,719
Management fees	3,235,549	-	3,235,549	3,127,471	-	3,127,471
Advisory fees	120,705	-	120,705	87,035	-	87,035
License fees	5,000	-	5,000	5,000	-	5,000
Public official bond revenue	480,435	-	480,435	481,118	-	481,118
Commissions - other	674,456	-	674,456	668,449	-	668,449
Membership dues	170,341	-	170,341	190,100	-	190,100
Training session fees	47,890	-	47,890	49,110	-	49,110
Contributions	-	35,000	35,000	-	-	-
Interest and dividend income	331,706	-	331,706	289,322	-	289,322
Rental income	45,250	-	45,250	45,000	-	45,000
Endorsement and marketing fees	14,443	-	14,443	6,850	-	6,850
Service fees	23,307	-	23,307	36,755	-	36,755
KACo convention, net	38,192	-	38,192	10,451	-	10,451
Gain on disposal of equipment	23,878	-	23,878	9,000	-	9,000
Net realized and unrealized gains on investments	423,734	-	423,734	530,771	-	530,771
Miscellaneous	4,069	-	4,069	33,445	-	33,445
Net assets released from restriction	35,000	(35,000)	-	-	-	-
	9,723,190	-	9,723,190	9,588,596	-	9,588,596
Expenses						
Program services	6,076,502	-	6,076,502	5,819,039	-	5,819,039
Supporting services	1,891,489	-	1,891,489	1,815,625	-	1,815,625
Interest expense	16,380	-	16,380	32,211	-	32,211
Provision for income taxes	82,652	-	82,652	99,853	-	99,853
	8,067,023	-	8,067,023	7,766,728	-	7,766,728
Changes in Net Assets	1,656,167	-	1,656,167	1,821,868	-	1,821,868
Net Assets at Beginning of Year	15,342,000	422,209	15,764,209	13,520,132	422,209	13,942,341
Net Assets at End of Year	\$ 16,998,167	\$ 422,209	\$ 17,420,376	\$ 15,342,000	\$ 422,209	\$ 15,764,209

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 1,656,167	\$ 1,821,868
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(423,734)	(530,771)
Depreciation	551,987	567,240
Gain on sale of equipment and available for sale assets	(23,878)	(9,000)
Changes in:		
Accounts receivable	37,890	(69,395)
Due from related parties	29,920	38,630
Prepaid expenses	(40,666)	14,263
Accounts payable and accrued liabilities	(72,474)	98,608
Accrued compensated absences	73,497	(7,049)
Association health plan payable	35,244	248,863
Unearned revenues	118,525	1,738
Net Cash Provided by Operating Activities	<u>1,942,478</u>	<u>2,174,995</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(49,507)	(51,524)
Proceeds from sale of property and equipment	34,000	9,000
Purchases of investments	(1,643,200)	(2,738,343)
Proceeds from sales of investments	1,478,329	2,592,298
Repayments of note receivable	-	48,933
Net Cash Used in Investing Activities	<u>(180,378)</u>	<u>(139,636)</u>
Cash Flows from Financing Activities		
Principal payments on related party loan	<u>(807,881)</u>	<u>(1,608,979)</u>
Increase in Cash and Cash Equivalents	954,219	426,380
Cash and Cash Equivalents at Beginning of Year	<u>3,342,090</u>	<u>2,915,710</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,296,309</u>	<u>\$ 3,342,090</u>
Supplemental Disclosure:		
Cash paid for interest	\$ 15,079	\$ 28,946
Cash paid for income taxes	102,715	125,488
Building improvements acquired through accounts payable	-	12,169

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Years Ended June 30, 2018 and 2017

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. KACo Financial Advisors, Inc. was dissolved October 18, 2016.

All inter-company transactions have been eliminated. The consolidated entity is collectively referred to herein as "the Organization".

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting: The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Under the ASC, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The Organization reports cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restriction.

Permanently restricted net assets include those contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization. There are no donor-imposed permanent restrictions on the net assets of the Organization.

2. Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.
3. Cash and Cash Equivalents: The Organization considers all highly liquid investments, with a maturity of 90 days or less when purchased, not restricted for a particular purpose, to be cash equivalents. The Organization typically maintains with its bank cash and cash equivalents in excess of federally-insured limits.
4. Investments: Investments are reported at fair value. Fair value is 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. 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)
Years Ended June 30, 2018 and 2017

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, 2018 and 2017.

6. 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	3 - 40 years
Furniture, fixtures and equipment	3 - 10 years
Vehicles	5 years

Depreciation expense during the years ended June 30, 2018 and 2017 was \$551,987 and \$567,240, respectively.

7. Unearned Revenues: Unearned revenues include amounts received from related parties for administrative expenses and services of KACo on behalf of the related parties. Unearned revenues for program administration and management 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 \$739,601 and \$642,845 at June 30, 2018 and 2017, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year-end of \$73,443 and \$51,674 at June 30, 2018 and 2017, respectively.

8. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled \$61,361 and \$45,769 in 2018 and 2017, respectively.

9. 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, 2018 or 2017.

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.

Kentucky Association of Counties, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

10. 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.
11. Recent Accounting Pronouncements: In August 2016, the FASB issued Accounting Standards Update No. 2016-14 (ASU 2016-14), *Presentation of Financial Statements of Not-for-Profit Entities*. This updated guidance changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditor and other users. This guidance includes qualitative and quantitative requirements in the following areas: 1) net asset classes 2) investment return 3) expenses 4) liquidity and availability of resources and 5) presentation of operating cash flows. This standard is effective for the fiscal year ending June 30, 2019.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*. ASU 2014-09 supersedes the revenue recognition guidance in Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods or services. This standard is effective for the fiscal year ending June 30, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities and changes in net assets. This standard is effective for the fiscal year ending June 30, 2021.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities and changes in net assets will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard is effective for the fiscal year ending June 30, 2022.

The Organization is currently evaluating the above guidance and the related impact on the Organization's consolidated financial statements.

Kentucky Association of Counties, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note C - Investments

FASB ASC defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurement. 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.

Common stock: Value at quoted market prices in an active market.

Mutual funds: Valued at the net asset value of the underlying assets.

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.

Real estate partnerships: Valued at cost which approximates fair value.

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, 2018.

	Investments at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market	\$ 72,543	\$ -	\$ -	\$ 72,543
Common stock	2,750,862	-	-	2,750,862
Mutual funds	1,332,830	-	-	1,332,830
Corporate bonds	-	1,750,729	-	1,750,729
Municipal bonds	-	464,493	-	464,493
Real estate partnerships	-	300,000	-	300,000
Total	\$ 4,156,235	\$ 2,515,222	\$ -	\$ 6,671,457

Kentucky Association of Counties, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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, 2017.

	Investments at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Money market	\$ 66,911	\$ -	\$ -	\$ 66,911
Common stock	1,980,446	-	-	1,980,446
Mutual funds	1,460,456	-	-	1,460,456
Corporate bonds	-	1,791,272	-	1,791,272
Municipal bonds	-	483,894	-	483,894
Real estate partnerships	-	299,873	-	299,873
Total	<u>\$ 3,507,813</u>	<u>\$ 2,575,039</u>	<u>\$ -</u>	<u>\$ 6,082,852</u>

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

Note D - Property and Equipment

Property and equipment as of June 30, 2018 and 2017 consists of:

	2018	2017
Building and improvements	\$ 11,476,476	\$ 11,476,476
Land and improvements	1,515,315	1,515,315
Equipment	1,030,357	1,019,331
Vehicles	169,044	206,638
Furniture and fixtures	29,575	29,575
	<u>14,220,767</u>	<u>14,247,335</u>
Less accumulated depreciation	<u>(5,162,809)</u>	<u>(4,676,775)</u>
	<u>\$ 9,057,958</u>	<u>\$ 9,570,560</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, 2018 and 2017, were 2.75% and 1.79%, respectively.

Kentucky Association of Counties, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note E - Related Party Loan (Continued)

The balance outstanding on the loan was \$191,573 and \$999,454 at June 30, 2018 and 2017, respectively.

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

As a result of this debt arrangement, KACo is required to maintain certain financial ratios with US Bank. KACo was in compliance with all loan covenants at June 30, 2018 and 2017.

Principal payments due on the debt during fiscal year ending June 30, 2019 total \$191,573.

Note F - Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 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, 2018 and 2017 represent amounts designated by the Board for the program guarantee fund and the association health plan.

Total net assets set aside for the program guarantee fund are \$2,622,209 and \$2,372,209 as of June 30, 2018 and 2017, respectively.

Note G - Retirement Plans

The Organization participates in the County Employee Retirement System of the Commonwealth of Kentucky ("CERS"). CERS is a cost-sharing multiple-employer public employee retirement system which covers all eligible full-time employees. Vesting begins after five years upon entry into CERS. CERS also provides death and disability benefits. Benefits are established by state statute. CERS requires employees to contribute 5.00% or 6.00%, based on their hire date, of their salary and employers to contribute 19.18% and 18.68% of participants' salaries during the years ended June 30, 2018 and 2017, respectively. The Organization's CERS expenses for the years ended June 30, 2018 and 2017 were \$736,537 and \$689,468, 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. The 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 \$199,328 and \$278,503 for the years ended June 30, 2018 and 2017, respectively.

Kentucky Association of Counties, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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.

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>2018</u>	<u>2017</u>
KACo All Lines Fund	\$ 1,408,649	\$ 1,365,906
KACo Workers' Compensation Fund	1,249,087	1,263,871
KACo Leasing Trust	991,574	949,253
KACo Unemployment Insurance Fund	301,078	349,524
KACo Insurance Agency, Inc.	137,990	136,414
KACo Commonwealth Insurance Company	<u>98,847</u>	<u>90,165</u>
	4,187,225	4,155,133
Elimination of KACo Insurance Agency, Inc.	<u>(137,990)</u>	<u>(136,414)</u>
	<u>\$ 4,049,235</u>	<u>\$ 4,018,719</u>

Kentucky Association of Counties, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note H - Related Party Transactions (Continued)

These separately established entities pay fees to KACo from the fees charged to the programs' participant members which are reflected in the consolidated statement of activities as management fees and license fees. The management fees are summarized as follows:

	<u>2018</u>	<u>2017</u>
KACo All Lines Fund	\$ 1,187,828	\$ 1,138,688
KACo Workers' Compensation Fund	1,107,721	1,075,833
KACo Leasing Trust	409,000	397,000
KACo Unemployment Insurance Fund	275,000	266,650
KACo Commonwealth Insurance Company	256,000	249,300
KACo Insurance Agency, Inc.	<u>166,500</u>	<u>161,600</u>
	3,402,049	3,289,071
Elimination of KACo Insurance Agency, Inc.	<u>(166,500)</u>	<u>(161,600)</u>
	<u>\$ 3,235,549</u>	<u>\$ 3,127,471</u>

The license fees are summarized as follows:

	<u>2018</u>	<u>2017</u>
KACo All Lines Fund	\$ 1,000	\$ 1,000
KACo Commonwealth Insurance Company	1,000	1,000
KACo Insurance Agency, Inc.	1,000	1,000
KACo Leasing Trust	1,000	1,000
KACo Unemployment Insurance Fund	1,000	1,000
KACo Workers' Compensation Fund	<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>2018</u>	<u>2017</u>
KACo Leasing Trust	\$ 7,763	\$ 39,104
KACo All Lines Fund	<u>1,421</u>	<u>-</u>
	<u>\$ 9,184</u>	<u>\$ 39,104</u>

Kentucky Association of Counties, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note H - Related Party Transactions (Continued)

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

	<u>2018</u>	<u>2017</u>
Program Administrative Fee		
KACo Workers' Compensation Fund	\$ 210,512	\$ 182,829
KACo All Lines Fund	189,152	191,694
KACo Unemployment Insurance Fund	170,222	115,476
KACo Leasing Trust	98,726	83,447
KACo Insurance Agency, Inc.	17,210	18,186
KACo Commonwealth Insurance Company	<u>12,253</u>	<u>20,135</u>
	698,075	611,767
Elimination of KACo Insurance Agency, Inc.	(17,210)	(18,186)
Additional Management Fee		
KACo All Lines Fund	-	18,346
KACo Workers' Compensation Fund	<u>58,736</u>	<u>30,918</u>
	<u>\$ 739,601</u>	<u>\$ 642,845</u>

Most of the Organization's insurance is provided by KALF and KWC. During 2018 and 2017, the Organization incurred total insurance expense under these agreements of \$108,218 and \$107,503, respectively.

Note I - KACo Convention

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Convention Income		
Convention registration	\$ 143,359	\$ 151,615
Convention sponsors	93,250	83,775
Convention exhibitors	<u>48,500</u>	<u>48,000</u>
	285,109	283,390
Convention Expenses	<u>246,917</u>	<u>272,939</u>
	<u>\$ 38,192</u>	<u>\$ 10,451</u>

Kentucky Association of Counties, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note J - Commitments and Contingencies

The Organization is, from time to time, involved in lawsuits arising in the ordinary course of its business that, in the opinion of management, will not have a material effect on the Organization's financial position, liquidity or results of operations.

Note K - Lease Commitments

During the year ended June 30, 2017, the Organization entered into a non-cancelable operating lease agreement for use of three copiers. Rent expense of approximately \$11,327 and \$1,887 was recorded under this lease during the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments under this lease are as follows:

Fiscal Year Ending June 30,	Amount
2019	\$ 11,324
2020	11,324
2021	944
	<u>\$ 23,592</u>

Note L - Income Taxes

The provision for income taxes consists of the following:

	2018		
	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Consolidated
Current:			
Federal	\$ 64,404	\$ -	\$ 64,404
State and local	18,248	-	18,248
Income Tax Expense	<u>\$ 82,652</u>	<u>\$ -</u>	<u>\$ 82,652</u>
	2017		
	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Consolidated
Current:			
Federal	\$ 82,806	\$ (724)	\$ 82,082
State and local	17,967	(196)	17,771
Income Tax Expense (Benefit)	<u>\$ 100,773</u>	<u>\$ (920)</u>	<u>\$ 99,853</u>

Supplementary Information

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Schedules of Program and Supporting Services
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Bank charges	\$ 3,361	\$ 3,220
Board expense	14,794	19,828
Commissions	19,385	19,714
Communication, promotion and liaison	440,972	294,009
Computer supplies	97,685	97,757
Consulting	-	1,650
Depreciation	551,987	567,240
Endorsement fee	59,094	44,189
Equipment and maintenance	44,952	30,881
Fringe benefits	1,700,393	1,732,945
Grounds and building maintenance	41,356	23,052
Insurance	118,835	117,946
Janitorial service	48,481	46,142
Miscellaneous	29,756	22,538
Office supplies	31,083	34,144
Postage	13,642	25,603
Printing	21,358	31,230
Professional dues	7,930	3,533
Professional fees	276,303	151,382
Public official bond expense	468,572	469,201
Publications	9,457	6,501
Salaries	3,811,388	3,735,033
Telephone	52,937	61,592
Training session expenses	38,502	35,629
Utilities	65,768	59,705
	<u>\$ 7,967,991</u>	<u>\$ 7,634,664</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, 2018

	<u>2018</u>
Cash Flows from Operating Activities	
Changes in net assets	\$ 177,024
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Changes in:	
Accounts receivable	21,688
Prepaid expenses	(19,087)
Accounts payable and accrued liabilities	2,352
Unearned revenues	<u>21,769</u>
Net Cash Provided by Operating Activities	<u>203,746</u>
Increase in Cash and Cash Equivalents	203,746
Cash and Cash Equivalents at Beginning of Year	<u>312,495</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 516,241</u></u>
Supplemental Disclosure:	
Cash paid for income taxes	\$ 102,715

See independent auditor's report.

Consolidating Information

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2018

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	\$ 3,780,068	\$ 516,241	\$ -	\$ 4,296,309
Accounts receivable	43,151	30,118	-	73,269
Due from related parties	9,184	-	-	9,184
Prepaid expenses	38,499	34,900	(17,210)	56,189
Total Current Assets	3,870,902	581,259	(17,210)	4,434,951
Investments	6,671,457	-	-	6,671,457
Property and equipment, net	9,057,958	-	-	9,057,958
Total Assets	<u>\$ 19,600,317</u>	<u>\$ 581,259</u>	<u>\$ (17,210)</u>	<u>\$ 20,164,366</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 167,708	\$ 39,860	\$ -	\$ 207,568
Accrued compensated absences	843,782	-	-	843,782
Association health plan payable	688,023	-	-	688,023
Unearned revenues	756,811	73,443	(17,210)	813,044
Current portion of related party loan	191,573	-	-	191,573
Total Current Liabilities	2,647,897	113,303	(17,210)	2,743,990
Commitments and Contingencies				
Net Assets/Equity				
Unrestricted				
Board designated - program guarantee fund	2,200,000	-	-	2,200,000
Board designated - association health plan reserve	109,268	-	-	109,268
Undesignated	14,220,943	-	-	14,220,943
Total Unrestricted	16,530,211	-	-	16,530,211
Temporarily restricted	422,209	-	-	422,209
Common stock, no par	-	-	-	-
Retained earnings	-	467,956	-	467,956
Total Net Assets/Equity	<u>16,952,420</u>	<u>467,956</u>	<u>-</u>	<u>17,420,376</u>
Total Liabilities and Net Assets	<u>\$ 19,600,317</u>	<u>\$ 581,259</u>	<u>\$ (17,210)</u>	<u>\$ 20,164,366</u>

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Statement of Unrestricted Activities
Year Ended June 30, 2018

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Changes in unrestricted net assets				
Revenues, gains and other support				
Program administration fees	\$ 4,187,225	\$ -	\$ (137,990)	\$ 4,049,235
Management fees	3,402,049	-	(166,500)	3,235,549
Advisory fees	120,705	-	-	120,705
License fees	6,000	-	(1,000)	5,000
Public official bond revenue	-	480,435	-	480,435
Commissions - other	-	674,456	-	674,456
Membership dues	170,341	-	-	170,341
Training session fees	47,890	-	-	47,890
Interest and dividend income	326,042	5,664	-	331,706
Rental income	45,250	-	-	45,250
Endorsement and marketing fees	14,443	-	-	14,443
Service fees	23,307	-	-	23,307
KACo convention, net	38,192	-	-	38,192
Gain on disposal of equipment	23,878	-	-	23,878
Net realized and unrealized gains on investments	423,734	-	-	423,734
Miscellaneous	4,069	-	-	4,069
Net assets released from restriction	35,000	-	-	35,000
Total Unrestricted Revenues, Gains and Other Support	8,868,125	1,160,555	(305,490)	9,723,190
Expenses				
Program services	5,529,451	547,051	-	6,076,502
Supporting services	1,843,151	353,828	(305,490)	1,891,489
Interest expense	16,380	-	-	16,380
Provision for income taxes	-	82,652	-	82,652
Total Expenses	7,388,982	983,531	(305,490)	8,067,023
Increase in Unrestricted Net Assets	1,479,143	177,024	-	1,656,167
Unrestricted Net Assets at Beginning of Year	15,051,068	290,932	-	15,342,000
Unrestricted Net Assets at End of Year	\$ 16,530,211	\$ 467,956	\$ -	\$ 16,998,167

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Schedule of Program and Supporting Services
Year Ended June 30, 2018

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Bank charges	\$ 3,361	\$ -	\$ -	\$ 3,361
Board expense	-	14,794	-	14,794
Commissions	-	19,385	-	19,385
Communication, promotion and liaison	437,847	3,125	-	440,972
Computer supplies	97,685	-	-	97,685
Depreciation	551,987	-	-	551,987
Endorsement fee	-	59,094	-	59,094
Equipment and maintenance	44,952	-	-	44,952
Fringe benefits	1,700,393	-	-	1,700,393
Grounds and building maintenance	41,356	-	-	41,356
Insurance	90,400	28,435	-	118,835
Janitorial service	48,481	-	-	48,481
Miscellaneous	29,742	14	-	29,756
Office supplies	31,083	-	-	31,083
Postage	13,642	-	-	13,642
Printing	21,358	-	-	21,358
Professional dues	7,930	-	-	7,930
Professional fees	274,653	1,650	-	276,303
Program administration, management and license fees	-	305,490	(305,490)	-
Public official bond expense	-	468,572	-	468,572
Publications	9,457	-	-	9,457
Salaries	3,811,388	-	-	3,811,388
Telephone	52,937	-	-	52,937
Training session expenses	38,182	320	-	38,502
Utilities	65,768	-	-	65,768
	<u>\$ 7,372,602</u>	<u>\$ 900,879</u>	<u>\$ (305,490)</u>	<u>\$ 7,967,991</u>

See independent auditor's report.