

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidated Financial Statements**  
**Years Ended June 30, 2019 and 2018**

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

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Years Ended June 30, 2019 and 2018

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## **Independent Auditor's Report**

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

### **Report on Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Kentucky Association of Counties, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, functional expense for the year ended June 30, 2019, 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.

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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 Subsidiary as of June 30, 2019 and 2018, 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 page 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 24, 2019

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidated Statements of Financial Position**  
**June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 4,637,269	\$ 4,296,309
Accounts receivable	46,825	73,269
Due from related parties	663	9,184
Prepaid expenses	<u>37,741</u>	<u>56,189</u>
Total Current Assets	4,722,498	4,434,951
Investments	6,954,311	6,671,457
Property and Equipment, net	<u>8,790,828</u>	<u>9,057,958</u>
Total Assets	<u>\$ 20,467,637</u>	<u>\$ 20,164,366</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 354,484	\$ 207,568
Accrued income taxes	14,615	-
Accrued compensated absences	838,360	843,782
Association health plan payable	414,141	688,023
Unearned revenues	662,908	813,044
Current portion of related party loan	<u>-</u>	<u>191,573</u>
Total Current Liabilities	2,284,508	2,743,990
Commitments and Contingencies		
Net Assets		
Without donor restrictions		
Board designated - program guarantee fund	2,450,000	2,200,000
Board designated - association health plan reserve	77,556	109,268
Undesignated	<u>15,233,364</u>	<u>14,688,899</u>
Total Net Assets Without Donor Restrictions	17,760,920	16,998,167
With donor restrictions		
Purpose restricted - program guarantee fund	<u>422,209</u>	<u>422,209</u>
Total Net Assets	<u>18,183,129</u>	<u>17,420,376</u>
Total Liabilities and Net Assets	<u>\$ 20,467,637</u>	<u>\$ 20,164,366</u>

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidated Statements of Activities and Changes in Net Assets**  
**Years Ended June 30, 2019 and 2018**

	2019			2018		
	Without	With	Total	Without	With	Total
	Donor Restrictions	Donor Restrictions		Donor Restrictions	Donor Restrictions	
Revenues, Gains and Other Support						
Program administration fees	\$ 4,174,851	\$ -	\$ 4,174,851	\$ 4,049,235	\$ -	\$ 4,049,235
Management fees	2,985,339	-	2,985,339	3,235,549	-	3,235,549
Advisory fees	75,338	-	75,338	120,705	-	120,705
License fees	5,000	-	5,000	5,000	-	5,000
Public official bond revenue	550,847	-	550,847	480,435	-	480,435
Commissions - other	818,186	-	818,186	674,456	-	674,456
Membership dues	169,000	-	169,000	170,341	-	170,341
Training session fees	59,800	-	59,800	47,890	-	47,890
Contributions	-	-	-	-	35,000	35,000
Interest and dividend income	400,571	-	400,571	331,706	-	331,706
Rental income	45,000	-	45,000	45,250	-	45,250
Endorsement and marketing fees	12,575	-	12,575	14,443	-	14,443
Service fees	-	-	-	23,307	-	23,307
KACo convention, net	34,698	-	34,698	38,192	-	38,192
Gain on disposal of equipment	9,800	-	9,800	23,878	-	23,878
Net realized and unrealized gains on investments	92,855	-	92,855	423,734	-	423,734
Miscellaneous	10,086	-	10,086	4,069	-	4,069
Net assets released from restriction	-	-	-	35,000	(35,000)	-
	9,443,946	-	9,443,946	9,723,190	-	9,723,190
Expenses						
Program services	5,197,566	-	5,197,566	6,092,882	-	6,092,882
Supporting services	3,388,725	-	3,388,725	1,891,489	-	1,891,489
Provision for income taxes	94,902	-	94,902	82,652	-	82,652
	8,681,193	-	8,681,193	8,067,023	-	8,067,023
Changes in Net Assets	762,753	-	762,753	1,656,167	-	1,656,167
Net Assets at Beginning of Year	16,998,167	422,209	17,420,376	15,342,000	422,209	15,764,209
Net Assets at End of Year	\$ 17,760,920	\$ 422,209	\$ 18,183,129	\$ 16,998,167	\$ 422,209	\$ 17,420,376

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Years Ended June 30, 2019 With Comparative Totals For The Year Ended June 30, 2018**

	2019			2018
	Program	Management & General	Total	Total
Advocacy	\$ 220,694	\$ -	\$ 220,694	\$ 93,001
Bank Charges	-	5,238	5,238	3,361
Board Expense	-	46,550	46,550	8,294
Board Fees	-	47,750	47,750	6,500
Commissions	19,877	-	19,877	19,385
Communication and Promotion	109,657	124,156	233,813	361,111
Computer Supplies	70,330	20,495	90,825	97,685
Convention	303,347	-	303,347	246,917
Depreciation	-	541,694	541,694	551,987
Endorsement Fee	85,694	-	85,694	59,094
Equipment and Maintenance	15,768	8,152	23,920	44,952
Fringe Benefits	1,185,476	624,918	1,810,394	1,700,393
Grounds and Building Maintenance	16,160	9,397	25,557	41,356
Insurance	90,497	29,906	120,403	118,835
Interest	-	4,432	4,432	16,380
Janitorial Service	32,974	16,240	49,214	48,481
Office Supplies	22,667	13,319	35,986	31,083
Postage	11,848	5,536	17,384	13,642
Printing	6,281	22,917	29,198	21,358
Professional Dues	10,967	3,308	14,275	7,930
Professional Fees	94,264	131,982	226,246	276,303
Provision for Income Taxes	94,902	-	94,902	82,652
Public Official Bond Expense	537,222	-	537,222	468,572
Publications	3,245	2,815	6,060	9,457
Rent	16,801	-	16,801	16,616
Salaries	2,562,309	1,615,971	4,178,280	3,812,046
Service Fees	-	31,712	31,712	-
Telephone	41,433	20,882	62,315	52,937
Training Session Expenses	1,327	37,330	38,657	38,502
Utilities	42,075	24,025	66,100	65,110
	5,595,815	3,388,725	8,984,540	8,313,940
Less convention expenses netted with convention revenue on the statement of activities	(303,347)	-	(303,347)	(246,917)
Net Program and Supporting Services/Expenses	\$ 5,292,468	\$ 3,388,725	\$ 8,681,193	\$ 8,067,023

See accompanying notes.

**Kentucky Association of Counties, Inc. and Subsidiary  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 762,753	\$ 1,656,167
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments	(92,855)	(423,734)
Depreciation	541,694	551,987
Gain on sale of equipment	(9,800)	(23,878)
Changes in		
Accounts receivable	26,444	37,890
Due from related parties	8,521	29,920
Prepaid expenses	18,448	(40,666)
Accounts payable and accrued liabilities	37,110	(72,474)
Accrued income taxes	14,615	-
Accrued compensated absences	(5,422)	73,497
Association health plan payable	(273,882)	35,244
Unearned revenues	(150,136)	118,525
	<u>877,490</u>	<u>1,942,478</u>
Net Cash Provided by Operating Activities	877,490	1,942,478
Cash Flows from Investing Activities		
Purchases of property and equipment	(164,758)	(49,507)
Proceeds from sale of property and equipment	9,800	34,000
Purchases of investments	(5,076,873)	(1,643,200)
Proceeds from sales of investments	4,886,874	1,478,329
	<u>(344,957)</u>	<u>(180,378)</u>
Net Cash Used in Investing Activities	(344,957)	(180,378)
Cash Flows from Financing Activities		
Principal payments on related party loan	(191,573)	(807,881)
	<u>340,960</u>	<u>954,219</u>
Increase in Cash and Cash Equivalents	340,960	954,219
Cash and Cash Equivalents at Beginning of Year	<u>4,296,309</u>	<u>3,342,090</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,637,269</u>	<u>\$ 4,296,309</u>
Supplemental Disclosure		
Cash paid for interest	\$ 4,771	\$ 15,079
Cash paid for income taxes	62,597	102,715
Building improvements acquired through accounts payable	109,806	-

See accompanying notes.



**Kentucky Association of Counties, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**Years Ended June 30, 2019 and 2018**

**Note A - Description of Organization**

Kentucky Association of Counties, Inc. ("KACo") is a non-profit organization organized under the laws of the Commonwealth of Kentucky. Its membership is the 120 county governments of the state. KACo was formed to improve and enhance county governments and their political subdivisions through educational programs, cooperative undertakings and issue advocacy. The consolidated financial statements include the accounts of KACo and its wholly owned subsidiary, KACo Insurance Agency, Inc. (the "Agency"), incorporated for the purpose of selling insurance products to county governments in Kentucky.

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

**Note B - Summary of Significant Accounting Policies**

1. Basis of Accounting: The 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.

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. KACo has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

KACo records and reports its assets, liabilities, net assets, revenues, expenses, gains and losses, and other support based on the existence or absence of donor-imposed restrictions. KACo reports information regarding its financial position and activities according to the following net asset classifications:

- *Net Assets Without Donor Restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of KACo's management and the board of directors.
- *Net Assets with Donor Restrictions*: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of KACo or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

The Organization reports cash and other assets as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restriction.

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.

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

**Note B - Summary of Significant Accounting Policies (Continued)**

3. Cash and Cash Equivalents: The Organization considers all highly liquid investments, with a maturity of 90 days or less when purchased, not restricted for a particular purpose, to be cash equivalents. The Organization typically maintains with its bank cash and cash equivalents in excess of federally-insured limits.
4. 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.
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, 2019 and 2018.
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
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 \$633,930 and \$739,601 at June 30, 2019 and 2018, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year-end of \$28,978 and \$73,443 at June 30, 2019 and 2018, respectively.
8. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled \$84,255 and \$61,361 in 2019 and 2018, respectively. Advertising costs are included in communication and promotion on the statement of functional of expenses.
9. Functional Allocation of Expenses: The cost of programs and supporting services activities has been summarized on a functional basis in the consolidated statement of activities and changes in net assets. The consolidated statement of functional expenses present the natural classification detail of expense by function. Accordingly, certain cost has been allocated among the programs and supporting serviced benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits which is allocated on the basis of estimates of time and effort.

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

**Note B - Summary of Significant Accounting Policies (Continued)**

10. Income Taxes: Kentucky Association of Counties, Inc. is a non-profit corporation under the laws of the Commonwealth of Kentucky and has been granted exemption from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. KACo Insurance Agency, Inc. is a for-profit corporation subject to income tax.

Deferred income taxes are recorded based upon the temporary differences between the financial statement and tax bases of assets and liabilities and net operating loss carryforwards available for tax purposes. There are no deferred income taxes at June 30, 2019 or 2018.

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.

11. Reclassifications: Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation, with no effect on net assets or the changes in net assets.
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.
13. Recent Accounting Pronouncements: 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. KACo evaluated the impact of the adoption of ASU 2014-09 on the consolidated financial statements and did not record any material impact from the adoption of ASU 2014-09 as of July 1, 2019.

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 and not expected to have a material impact on the consolidated financial statements.

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 and not expected to have a material impact on the consolidated financial statements.

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

**Note C - Availability and Liquidity**

The following represents the Organization's consolidated financial assets at June 30:

	<u>2019</u>	<u>2018</u>
Financial Assets at Year End		
Cash and cash equivalents	\$ 4,637,269	\$ 4,296,309
Accounts receivable	46,825	73,269
Investments	<u>6,954,311</u>	<u>6,671,457</u>
Total Financial Assets	11,638,405	11,041,035
Less Amounts not Available to be Used Within One Year		
Board designated - program guarantee fund	2,450,000	2,200,000
Board designated - association health plan reserve	77,556	109,268
Purpose restricted - program guarantee fund	<u>422,209</u>	<u>422,209</u>
	<u>2,949,765</u>	<u>2,731,477</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u><u>\$ 8,688,640</u></u>	<u><u>\$ 8,309,558</u></u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments.

**Note D - 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.

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements (Continued)**  
**Years Ended June 30, 2019 and 2018**

**Note D - 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.
- *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, Real Estate Partnerships 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, 2019.

	Investments at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 351,543	\$ -	\$ -	\$ 351,543
Common Stock	1,271,255	-	-	1,271,255
Mutual Funds	1,857,999	-	-	1,857,999
Corporate Bonds	-	1,274,729	-	1,274,729
Municipal Bonds	-	1,884,846	-	1,884,846
Real Estate Partnerships	-	313,939	-	313,939
Total	<u>\$ 3,480,797</u>	<u>\$ 3,473,514</u>	<u>\$ -</u>	<u>\$ 6,954,311</u>

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	<u>\$ 4,156,235</u>	<u>\$ 2,515,222</u>	<u>\$ -</u>	<u>\$ 6,671,457</u>

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

**Note D - Investments (Continued)**

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 E - Property and Equipment**

Property and equipment as of June 30, 2019 and 2018 consists of:

	<u>2019</u>	<u>2018</u>
Building and Improvements	\$ 11,605,651	\$ 11,476,476
Land and Improvements	1,566,315	1,515,315
Equipment	1,074,133	1,030,357
Vehicles	178,511	169,044
Furniture and Fixtures	<u>42,988</u>	<u>29,575</u>
	14,467,598	14,220,767
Less accumulated depreciation	<u>(5,676,770)</u>	<u>(5,162,809)</u>
	<u><u>\$ 8,790,828</u></u>	<u><u>\$ 9,057,958</u></u>

**Note F - Related Party Loan**

On June 1, 2008, through the County of Christian, Kentucky, the Kentucky Association of Counties Leasing Trust ("COLT"), a related party, issued \$30,000,000 of bonds (the "Bonds"). During 2009, KACo obtained a loan through COLT from the Bond proceeds in the amount of \$12,000,000 for the purpose of financing the construction of a new building to be used by KACo ("Construction Loan"). Principal was payable annually in the amounts as defined in the agreement. KACo paid 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") were made directly to US Bank on behalf of COLT as a portion of the principal and interest payments owed on the Bonds. KACo was 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, 2019 and 2018, were 4.63% and 2.75%, respectively.

The related party loan matured during the fiscal year ending June 30, 2019. The outstanding balance on the loan was \$191,573 at June 30, 2018.

**Note G - Net Assets**

Nets assets with donor restrictions at June 30, 2019 and 2018 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, 2019 and 2018 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 \$2,872,209 and \$2,622,209 as of June 30, 2019 and 2018, respectively.

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

**Note H - Retirement Plans**

The Organization participates in the County Employee Retirement System of the Commonwealth of Kentucky ("CERS"). CERS is a cost-sharing multiple-employer public employee retirement system which covers all eligible full-time employees. Vesting begins after five years upon entry into CERS. CERS also provides death and disability benefits. Benefits are established by state statute. CERS requires employees to contribute 5.00% or 6.00%, based on their hire date, of their salary and employers to contribute 21.48% and 19.18% of participants' salaries during the years ended June 30, 2019 and 2018, respectively. The Organization's CERS expenses for the years ended June 30, 2019 and 2018 were \$820,459 and \$736,537, 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 \$199,309 and \$199,328 for the years ended June 30, 2019 and 2018, respectively.

**Note I - Related Party Transactions**

Insurance and other financial services are provided to KACo members by related organizations governed by separate boards. The transactions and accounts of the related entities are not included in these financial statements. The related entities are as follows:

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

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

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

KACo charges its affiliates a flat program administration fee. This fee covers all expenses which had formerly been directly allocated in an itemized fashion to the affiliates. The program administration fee, which is determined annually, is due ratably to KACo at the beginning of each quarter. Such fees are summarized as follows:

	<u>2019</u>	<u>2018</u>
KACo All Lines Fund	\$ 1,419,358	\$ 1,408,649
KACo Workers' Compensation Fund	1,350,001	1,249,087
KACo Unemployment Insurance Fund	281,774	301,078
KACo Leasing Trust	1,037,772	991,574
KACo Commonwealth Insurance Company	85,946	98,847
KACo Insurance Agency, Inc.	<u>123,599</u>	<u>137,990</u>
	4,298,450	4,187,225
Elimination of KACo Insurance Agency, Inc.	<u>(123,599)</u>	<u>(137,990)</u>
	<u>\$ 4,174,851</u>	<u>\$ 4,049,235</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>2019</u>	<u>2018</u>
KACo All Lines Fund	\$ 1,112,215	\$ 1,187,828
KACo Workers' Compensation Fund	1,021,624	1,107,721
KACo Unemployment Insurance Fund	243,000	275,000
KACo Leasing Trust	360,000	409,000
KACo Commonwealth Insurance Company	248,500	256,000
KACo Insurance Agency, Inc.	<u>160,000</u>	<u>166,500</u>
	3,145,339	3,402,049
Elimination of KACo Insurance Agency, Inc.	<u>(160,000)</u>	<u>(166,500)</u>
	<u>\$ 2,985,339</u>	<u>\$ 3,235,549</u>



**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

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

The license fees are summarized as follows:

	<u>2019</u>	<u>2018</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 Commonwealth Insurance Company	1,000	1,000
KACo Insurance Agency, Inc.	<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>2019</u>	<u>2018</u>
KACo All Lines Fund	\$ -	\$ 1,421
KACo Leasing Trust	<u>663</u>	<u>7,763</u>
	<u>\$ 663</u>	<u>\$ 9,184</u>

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

	<u>2019</u>	<u>2018</u>
Program Administrative Fee		
KACo All Lines Fund	\$ 187,199	\$ 189,152
KACo Workers' Compensation Fund	282,891	210,512
KACo Unemployment Insurance Fund	49,374	170,222
KACo Leasing Trust	69,978	98,726
KACo Commonwealth Insurance Company	29,104	12,253
KACo Insurance Agency, Inc.	<u>37,301</u>	<u>17,210</u>
	655,847	698,075
Elimination of KACo Insurance Agency, Inc.	<u>(37,301)</u>	<u>(17,210)</u>
Additional Management Fee		
KACo All Lines Fund	4,329	-
KACo Workers' Compensation Fund	<u>11,055</u>	<u>58,736</u>
	<u>\$ 633,930</u>	<u>\$ 739,601</u>

Most of the Organization's insurance is provided by KALF and KWC. During 2019 and 2018, the Organization incurred total insurance expense under these agreements of \$107,424 and \$108,218, respectively.

**Kentucky Association of Counties, Inc. and Subsidiary  
Notes to Consolidated Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

**Note J - KACo Convention**

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Convention Income		
Convention registration	\$ 147,395	\$ 143,359
Convention sponsors	120,500	93,250
Convention exhibitors	<u>70,150</u>	<u>48,500</u>
	338,045	285,109
Convention Expenses	<u>303,347</u>	<u>246,917</u>
	<u>\$ 34,698</u>	<u>\$ 38,192</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.

**Note L - 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 \$11,000 was recorded under this lease during each of the years ended June 30, 2019 and 2018.

Future minimum lease payments under this lease are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 11,324
2021	<u>944</u>
	<u>\$ 12,268</u>

**Note M - Income Taxes**

The provision for income taxes consists of the following:

	<u>2019</u>	<u>2018</u>
	<u>KACo</u>	<u>KACo</u>
	<u>Insurance</u>	<u>Insurance</u>
	<u>Agency, Inc.</u>	<u>Agency, Inc.</u>
Current		
Federal	\$ 74,772	\$ 64,404
State and local	<u>20,130</u>	<u>18,248</u>
Income Tax Expense	<u>\$ 94,902</u>	<u>\$ 82,652</u>

## **Supplementary Information**

**Kentucky Association of Counties, Inc. and Subsidiary  
KACo Insurance Agency, Inc. Statement of Cash Flows  
Year Ended June 30, 2019**

Cash Flows from Operating Activities	
Changes in net assets	\$ 295,666
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Changes in	
Accounts receivable	(12,039)
Prepaid expenses	(2,401)
Accounts payable and accrued liabilities	17,291
Accrued income taxes	14,615
Unearned revenues	<u>(44,465)</u>
Net Cash Provided by Operating Activities	<u>268,667</u>
Increase in Cash and Cash Equivalents	268,667
Cash and Cash Equivalents at Beginning of Year	<u>516,241</u>
Cash and Cash Equivalents at End of Year	<u>\$ 784,908</u>
Supplemental Disclosure	
Cash paid for income taxes	\$ 62,597

See independent auditor's report.

## **Consolidating Information**

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidating Statement of Financial Position**  
**June 30, 2019**

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ 3,852,361	\$ 784,908	\$ -	\$ 4,637,269
Accounts receivable	4,668	42,157	-	46,825
Due from related parties	663	-	-	663
Prepaid expenses	37,741	37,301	(37,301)	37,741
Total Current Assets	3,895,433	864,366	(37,301)	4,722,498
Investments	6,954,311	-	-	6,954,311
Property and Equipment, net	8,790,828	-	-	8,790,828
Total Assets	<u>\$ 19,640,572</u>	<u>\$ 864,366</u>	<u>\$ (37,301)</u>	<u>\$ 20,467,637</u>
<b>Liabilities and Net Assets</b>				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 297,333	\$ 57,151	\$ -	\$ 354,484
Accrued income taxes	-	14,615	-	14,615
Accrued compensated absences	838,360	-	-	838,360
Association health plan payable	414,141	-	-	414,141
Unearned revenues	671,231	28,978	(37,301)	662,908
Total Current Liabilities	2,221,065	100,744	(37,301)	2,284,508
Commitments and Contingencies				
Net Assets/Equity				
Without donor restrictions				
Board designated - program guarantee fund	2,450,000	-	-	2,450,000
Board designated - association health plan reserve	77,556	-	-	77,556
Undesignated	14,469,742	-	-	14,469,742
Total Net Assets Without Donor Restrictions	16,997,298	-	-	16,997,298
With donor restrictions				
Purpose restricted - program guarantee fund	422,209	-	-	422,209
Total Net Assets	17,419,507	-	-	17,419,507
Retained earnings	-	763,622	-	763,622
Total Net Assets/Equity	<u>17,419,507</u>	<u>763,622</u>	<u>-</u>	<u>18,183,129</u>
Total Liabilities and Net Assets	<u>\$ 19,640,572</u>	<u>\$ 864,366</u>	<u>\$ (37,301)</u>	<u>\$ 20,467,637</u>

See independent auditor's report.

**Kentucky Association of Counties, Inc. and Subsidiary  
Consolidating Statement of Unrestricted Activities  
Year Ended June 30, 2019**

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Changes in Unrestricted Net Assets				
Revenues, gains and other support				
Program administration fees	\$ 4,298,450	\$ -	\$ (123,599)	\$ 4,174,851
Management fees	3,145,339	-	(160,000)	2,985,339
Advisory fees	75,338	-	-	75,338
License fees	6,000	-	(1,000)	5,000
Public official bond revenue	-	550,847	-	550,847
Commissions - other	-	818,186	-	818,186
Membership dues	169,000	-	-	169,000
Training session fees	59,800	-	-	59,800
Interest and dividend income	387,626	12,945	-	400,571
Rental income	45,000	-	-	45,000
Endorsement and marketing fees	12,575	-	-	12,575
KACo convention	34,698	-	-	34,698
Gain on disposal of equipment	9,800	-	-	9,800
Net realized and unrealized gains on investments	92,855	-	-	92,855
Miscellaneous	10,086	-	-	10,086
	<u>8,346,567</u>	<u>1,381,978</u>	<u>(284,599)</u>	<u>9,443,946</u>
Total Unrestricted Revenues, Gains and Other Support				
Expenses				
Program services	4,517,492	964,673	(284,599)	5,197,566
Supporting services	3,361,988	26,737	-	3,388,725
Provision for income taxes	-	94,902	-	94,902
	<u>7,879,480</u>	<u>1,086,312</u>	<u>(284,599)</u>	<u>8,681,193</u>
Total Expenses				
Increase in Unrestricted Net Assets	467,087	295,666	-	762,753
Unrestricted Net Assets at Beginning of Year				
	<u>16,530,211</u>	<u>467,956</u>	<u>-</u>	<u>16,998,167</u>
Unrestricted Net Assets at End of Year				
	<u>\$ 16,997,298</u>	<u>\$ 763,622</u>	<u>\$ -</u>	<u>\$ 17,760,920</u>

See independent auditor's report.

**Kentucky Association of Counties, Inc. and Subsidiary**  
**Consolidating Statement of Expenses**  
**Year Ended June 30, 2019**

	KACo	KACo Insurance Agency, Inc.	Eliminations	Consolidated
Advocacy	\$ 220,694	\$ -	\$ -	\$ 220,694
Bank Charges	5,238	-	-	5,238
Board Expense	26,314	20,236	-	46,550
Board Fees	41,250	6,500	-	47,750
Commissions	-	19,877	-	19,877
Communication and Promotion	228,359	5,454	-	233,813
Computer Supplies	90,825	-	-	90,825
Convention	303,347	-	-	303,347
Depreciation	541,694	-	-	541,694
Endorsement Fee	-	85,694	-	85,694
Equipment and Maintenance	23,920	-	-	23,920
Fringe Benefits	1,810,394	-	-	1,810,394
Grounds and Building Maintenance	25,557	-	-	25,557
Insurance	90,625	29,778	-	120,403
Interest Expense	4,432	-	-	4,432
Janitorial Service	49,214	-	-	49,214
Office Supplies	35,986	-	-	35,986
Postage	17,384	-	-	17,384
Printing	29,198	-	-	29,198
Professional Dues	14,275	-	-	14,275
Professional Fees	224,596	1,650	-	226,246
Program Administration, Management and License Fees	-	284,599	(284,599)	-
Public Official Bond Expense	-	537,222	-	537,222
Publications	6,060	-	-	6,060
Rent	16,801	-	-	16,801
Salaries	4,178,280	-	-	4,178,280
Service Fees	31,712	-	-	31,712
Telephone	62,315	-	-	62,315
Training Session Expenses	38,257	400	-	38,657
Utilities	66,100	-	-	66,100
Provision for Income Taxes	-	94,902	-	94,902
Convention Expenses Netted with Convention Revenue	(303,347)	-	-	(303,347)
<b>Total Expenses</b>	<b>\$ 7,879,480</b>	<b>\$ 1,086,312</b>	<b>\$ (284,599)</b>	<b>\$ 8,681,193</b>

See independent auditor's report.