Kentucky Association of Counties, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

Kentucky Association of Counties, Inc. and Subsidiaries

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June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Mountjoy Chilton Medley LLP

Louisville, Kentucky
September 27, 2017

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 3,342,090	$ 2,915,710
Accounts receivable	111,159	41,764
Due from related parties	39,104	77,734
Note receivable, current portion	-	48,933
Prepaid expenses	15,523	29,786
Total Current Assets	3,507,876	3,113,927
Investments	6,082,852	5,406,036
Property and equipment, net	9,570,560	10,074,107
Total Assets	$ 19,161,288	$ 18,594,070
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 280,042	$ 169,265
Accrued compensated absences	770,285	777,334
Association health plan payable	652,779	403,916
Unearned revenues	694,519	692,781
Current portion of related party loan	577,114	630,000
Total Current Liabilities	2,974,739	2,673,296
Related party loan, net of current portion	422,340	1,978,433
Total Liabilities	3,397,079	4,651,729
Commitments and Contingencies		
Net Assets		
Unrestricted		
Board designated - program guarantee fund	1,950,000	1,700,000
Board designated - association health plan reserve	85,961	63,416
Undesignated	13,306,039	11,756,716
Total unrestricted	15,342,000	13,520,132
Temporarily restricted	422,209	422,209
Total Net Assets	15,764,209	13,942,341
Total Liabilities and Net Assets	$ 19,161,288	$ 18,594,070

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Program administration fees	$ 4,018,719	$ -	$ 4,018,719	$ 3,845,506	$ -	$ 3,845,506
Management fees	3,127,471	-	3,127,471	3,134,843	-	3,134,843
Advisory fees	87,035	-	87,035	1,131,771	-	1,131,771
License fees	5,000	-	5,000	5,000	-	5,000
Public official bond revenue	481,118	-	481,118	466,018	-	466,018
Commissions - other	668,449	-	668,449	673,074	-	673,074
Membership dues	190,100	-	190,100	214,150	-	214,150
Training session fees	49,110	-	49,110	39,220	-	39,220
Interest and dividend income	289,322	-	289,322	244,111	-	244,111
Rental income	45,000	-	45,000	39,000	-	39,000
Endorsement and marketing fees	6,850	-	6,850	14,599	-	14,599
Service fees	36,755	-	36,755	49,206	-	49,206
KACo convention, net	10,451	-	10,451	(7,187)	-	(7,187)
Gain on disposal of equipment and assets held for sale	9,000	-	9,000	222,134	-	222,134
Net realized and unrealized gains (losses) on investments	530,771	-	530,771	(300,065)	-	(300,065)
Miscellaneous	33,445	-	33,445	1,568	-	1,568
	9,588,596	-	9,588,596	9,772,948	-	9,772,948
Expenses						
Program services	5,819,039	-	5,819,039	6,657,994	-	6,657,994
Supporting services	1,815,625	-	1,815,625	1,784,236	-	1,784,236
Interest expense	32,211	-	32,211	35,209	-	35,209
Provision for income taxes	99,853	-	99,853	136,029	-	136,029
	7,766,728	-	7,766,728	8,613,468	-	8,613,468
Changes in Net Assets	1,821,868	-	1,821,868	1,159,480	-	1,159,480
Net Assets at Beginning of Year	13,520,132	422,209	13,942,341	12,360,652	422,209	12,782,861
Net Assets at End of Year	$ 15,342,000	$ 422,209	$ 15,764,209	$ 13,520,132	$ 422,209	$ 13,942,341

See accompanying notes.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Changes in net assets	$ 1,821,868	$ 1,159,480
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(530,771)	300,065
Depreciation	567,240	573,199
Gain on sale of equipment and available for sale assets	(9,000)	(222,134)
Changes in:		
Accounts receivable	(69,395)	(17,951)
Due from related parties	38,630	44,129
Prepaid expenses	14,263	10,876
Accounts payable and accrued liabilities	98,608	60,901
Accrued compensated absences	(7,049)	78,113
Association health plan payable	248,863	14,990
Unearned revenues	1,738	31,972
Net Cash Provided by Operating Activities	2,174,995	2,033,640
Cash Flows from Investing Activities		
Purchases of property and equipment	(51,524)	(61,728)
Proceeds from sale of property and equipment	9,000	14,000
Proceeds from sale of available for sale assets	-	930,000
Purchases of investments	(2,738,343)	(2,880,076)
Proceeds from sales of investments	2,592,298	2,019,742
Repayments of note receivable	48,933	56,661
Net Cash (Used in) Provided by Investing Activities	(139,636)	78,599
Cash Flows from Financing Activities		
Principal payments on related party loan	(1,608,979)	(2,134,818)
Increase (Decrease) in Cash and Cash Equivalents	426,380	(22,579)
Cash and Cash Equivalents at Beginning of Year	2,915,710	2,938,289
Cash and Cash Equivalents at End of Year	$ 3,342,090	$ 2,915,710
Supplemental Disclosure:		
Cash paid for interest	$ 28,946	$ 28,827
Cash paid for income taxes	125,488	116,637
Building improvements acquired through accounts payable	12,169	-

See accompanying notes.

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.

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, 2017 and 2016.

6. Note Receivable: The note receivable consisted of an interest bearing note receivable due from Civic Finance Advisors, LLC earning interest of 3% annually. In May 2016, the note was amended to increase the monthly payments from $4,500 to $7,059. The note receivable was reported at its outstanding principal, plus any accrued interest. The note was paid in full during fiscal year 2017. Interest on the note was recognized over the term of the note and calculated using the simple-interest method on principal amounts outstanding.

7. Property and Equipment: Property and equipment is recorded at cost, if purchased, or fair market value at date of contribution, if contributed. It is the Organization's policy to capitalize purchases of property and equipment in excess of $1,500. Lesser amounts are expensed. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	3 - 40 years
Furniture, fixtures and equipment	3 - 10 years
Vehicles	5 years

Depreciation expense during the years ended June 30, 2017 and 2016 was $567,240 and $573,199, respectively.

8. 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 $642,845 and $637,596 at June 30, 2017 and 2016, respectively. The Agency has unearned revenues representing cash received for policies not in effect at year-end of $51,674 and $55,185 at June 30, 2017 and 2016, respectively.

9. Advertising Costs: Costs incurred for advertising and promotions are expensed as incurred. Advertising expenses totaled $45,769 and $48,821 in 2017 and 2016, respectively.

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. 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, 2017 or 2016.

    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.

Note B - Summary of Significant Accounting Policies (Continued)

11. 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.

12. 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 annual reporting periods beginning after December 15, 2017.

    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 annual reporting periods beginning after December 15, 2018.

    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 balance sheet 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 income statement. This standard is effective for annual reporting periods beginning after December 19, 2019.

    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 annual reporting periods beginning after December 15, 2020.

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

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.

Mutual funds and common stock: Valued at the net asset value of the underlying assets, at the underlying net asset value less applicable fees or at quoted market price.

Government securities and corporate bonds: Valued using pricing for similar securities, recently executed transactions, cash flow models with yield curves and other pricing models utilizing observable inputs.

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, 2017.

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

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, 2016.

	Investments at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Money market	$ 77,693	$ -	$ -	$ 77,693
Mutual funds	1,984,967	-	-	1,984,967
Common stock	1,883,797	-	-	1,883,797
Municipal bonds	-	730,000	-	730,000
Corporate bonds	-	729,579	-	729,579
Total	$ 3,946,457	$ 1,459,579	$ -	$ 5,406,036

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, 2017 and 2016 consists of:

	2017	2016
Land and improvements	$ 1,515,315	$ 1,515,315
Building and improvements	11,476,476	11,456,707
Furniture and fixtures	29,575	29,575
Equipment	1,019,331	1,052,742
Vehicles	206,638	198,965
	14,247,335	14,253,304
Less accumulated depreciation	(4,676,775)	(4,179,197)
	$ 9,570,560	$ 10,074,107

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, 2017 and 2016, were 1.79% and 0.96%, respectively. The balance outstanding on the loan was $999,454 and $2,608,433 at June 30, 2017 and 2016, respectively.

Note E - Related Party Loan (Continued)

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

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, 2017 and 2016.

Principal payments due on long-term debt for the fiscal years subsequent to June 30, 2017 are as follows:

Fiscal Year Ending June 30,	
2018	$ 577,114
2019	422,340
	$ 999,454

Note F - Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 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, 2017 and 2016 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 $2,372,209 and $2,122,209 as of June 30, 2017 and 2016, 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 18.68% and 17.06% of participants' salaries during the years ended June 30, 2017 and 2016, respectively. The Organization's CERS expenses for the years ended June 30, 2017 and 2016 were $689,468 and $616,559, 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 $278,503 and $198,035 for the years ended June 30, 2017 and 2016, respectively.

Note H - Related Party Transactions

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

1. The Kentucky Association of Counties All Lines Fund ("KALF") is a property, casualty and liability self-insurance program organized pursuant to state law and provides insurance, other than workers' compensation, to Kentucky counties and other political subdivisions.

2. The Kentucky Association of Counties Workers' Compensation Fund ("KWC") provides workers' compensation and employers' liability coverage to Kentucky counties and other political subdivisions pursuant to state law.

3. The Kentucky Association of Counties Unemployment Insurance Fund ("KUI") operates as a pooled reimbursing unemployment insurance program that allows Kentucky county governments to meet their statutory obligation to provide unemployment insurance benefits to their employees.

4. The Kentucky Association of Counties Leasing Trust ("COLT") is an inter-local agreement trust that was formed to make funds available for capital improvement projects and equipment purchases by Kentucky county governments and specific districts.

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

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:

	2017	2016
KACo All Lines Fund	$ 1,365,906	$ 1,278,965
KACo Workers' Compensation Fund	1,263,871	1,173,361
KACo Unemployment Insurance Fund	349,524	386,703
KACo Leasing Trust	949,253	928,968
KACo Insurance Agency, Inc.	136,414	123,093
KACo Commonwealth Insurance Company	90,165	77,509
	4,155,133	3,968,599
Elimination of KACo Insurance Agency, Inc.	(136,414)	(123,093)
	$ 4,018,719	$ 3,845,506

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:

	2017	2016
KACo All Lines Fund	$ 1,138,688	$ 1,126,090
KACo Workers' Compensation Fund	1,075,833	1,099,133
KACo Unemployment Insurance Fund	266,650	272,040
KACo Leasing Trust	397,000	388,825
KACo Insurance Agency, Inc.	161,600	160,510
KACo Commonwealth Insurance Company	249,300	248,755
KACo Financial Advisors, Inc.	-	25,000
	3,289,071	3,320,353
Elimination of KACo Insurance Agency, Inc.	(161,600)	(160,510)
Elimination of KACo Financial Advisors, Inc.	-	(25,000)
	$ 3,127,471	$ 3,134,843

The license fees are summarized as follows:

	2017	2016
KACo All Lines Fund	$ 1,000	$ 1,000
KACo Workers' Compensation Fund	1,000	1,000
KACo Unemployment Insurance Fund	1,000	1,000
KACo Leasing Trust	1,000	1,000
KACo Insurance Agency, Inc.	1,000	1,000
KACo Commonwealth Insurance Company	1,000	1,000
	6,000	6,000
Elimination of KACo Insurance Agency, Inc.	(1,000)	(1,000)
	$ 5,000	$ 5,000

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

	2017	2016
KACo Leasing Trust	$ 39,104	$ 77,734

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:

	2017	2016
Program Administrative Fee		
KACo All Lines Fund	$ 191,694	$ 233,837
KACo Workers' Compensation Fund	182,829	234,639
KACo Unemployment Insurance Fund	115,476	70,697
KACo Leasing Trust	83,447	79,182
KACo Insurance Agency, Inc.	18,186	13,706
KACo Commonwealth Insurance Company	20,135	19,241
	611,767	651,302
Elimination of KACo Insurance Agency, Inc.	(18,186)	(13,706)
Additional Management Fee		
KACo All Lines Fund	18,346	-
KACo Workers' Compensation Fund	30,918	-
	$ 642,845	$ 637,596

Most of the Organization's insurance is provided by KALF and KWC. During 2017 and 2016, the Organization incurred total insurance expense under these agreements of $107,503 and $108,381, respectively.

Note I - KACo Convention

The financial results of the Kentucky Association of Counties annual convention for the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Convention Income		
Convention registration	$ 151,615	$ 144,055
Convention exhibitors	48,000	55,450
Convention sponsors	83,775	80,750
	283,390	280,255
Convention Expenses	272,939	287,442
	$ 10,451	$ (7,187)

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 $1,887 was recorded under this lease during the year ended June 30, 2017.

Future minimum lease payments under this lease are as follows:

Fiscal Year Ending June 30,	Amount
2018	$ 11,324
2019	11,324
2020	11,324
2021	944
	$ 34,916

Note L - Income Taxes

The provision for income taxes consists of the following:

	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)	$ 100,773	$ (920)	$ 99,853

	2016		
	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Consolidated
Current:			
Federal	$ 96,577	$ 18,179	$ 114,756
State and local	18,249	3,024	21,273
Income Tax Expense	$ 114,826	$ 21,203	$ 136,029

Supplementary Information

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidated Schedules of Program and Supporting Services
Years Ended June 30, 2017 and 2016

	2017	2016
Bank charges	$ 3,220	$ 2,657
Board expense	19,828	18,012
Commissions	19,714	19,491
Communication, promotion and liaison	294,009	282,460
Computer supplies	97,757	73,163
Consulting	1,650	1,650
Depreciation	567,240	573,199
Endorsement fee	44,189	42,905
Equipment and maintenance	30,881	26,785
Fringe benefits	1,732,945	1,602,875
Grounds and building maintenance	23,052	37,604
Insurance	117,946	118,150
Janitorial service	46,142	46,979
Miscellaneous	22,538	27,377
Office supplies	34,144	29,659
Postage	25,603	26,290
Printing	31,230	30,532
Professional dues	3,533	8,812
Professional fees	151,382	1,201,492
Public official bond expense	469,201	454,491
Publications	6,501	7,058
Salaries	3,735,033	3,666,826
Telephone	61,592	56,623
Training session expenses	35,629	33,569
Travel expenses	-	2,255
Utilities	59,705	51,316
	$ 7,634,664	$ 8,442,230

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiaries
KACo Insurance Agency, Inc. Statement of Cash Flows
Year Ended June 30, 2017

	2017
Cash Flows from Operating Activities	
Changes in net assets	$ 170,723
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Changes in:	
Accounts receivable	(23,702)
Prepaid expenses	(2,107)
Accounts payable and accrued liabilities	(31,800)
Unearned revenues	(3,511)
Net Cash Provided by Operating Activities	109,603
Cash Flows from Financing Activities	
Payment of dividend declared	(300,000)
Decrease in Cash and Cash Equivalents	(190,397)
Cash and Cash Equivalents at Beginning of Year	502,892
Cash and Cash Equivalents at End of Year	$ 312,495
Supplemental Disclosure:	
Cash paid for income taxes	$ 129,658

See independent auditor's report.

Consolidating Information

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2017

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 3,029,595	$ 312,495	$ -	$ -	$ 3,342,090
Accounts receivable	59,353	51,806	-	-	111,159
Due from related parties	39,104	-	-	-	39,104
Prepaid expenses	17,896	15,813	-	(18,186)	15,523
Total Current Assets	3,145,948	380,114	-	(18,186)	3,507,876
Investments	6,082,852	-	-	-	6,082,852
Property and equipment, net	9,570,560	-	-	-	9,570,560
Total Assets	$ 18,799,360	$ 380,114	$ -	$ (18,186)	$ 19,161,288
Liabilities and Net Assets					
Current Liabilities					
Accounts payable and accrued liabilities	$ 242,534	$ 37,508	$ -	$ -	$ 280,042
Accrued compensated absences	770,285	-	-	-	770,285
Association health plan payable	652,779	-	-	-	652,779
Unearned revenues	661,031	51,674	-	(18,186)	694,519
Current portion of related party loan	577,114	-	-	-	577,114
Total Current Liabilities	2,903,743	89,182	-	(18,186)	2,974,739
Related party loan, net of current portion	422,340	-	-	-	422,340
Total Liabilities	3,326,083	89,182	-	(18,186)	3,397,079
Commitments and Contingencies					
Net Assets/Equity					
Unrestricted					
Board designated - program guarantee fund	1,950,000	-	-	-	1,950,000
Board designated - association health plan reserve	85,961	-	-	-	85,961
Undesignated	13,015,107	-	-	-	13,015,107
Total Unrestricted	15,051,068	-	-	-	15,051,068
Temporarily restricted	422,209	-	-	-	422,209
Retained earnings	-	290,932	-	-	290,932
Total Net Assets/Equity	15,473,277	290,932	-	-	15,764,209
Total Liabilities and Net Assets	$ 18,799,360	$ 380,114	$ -	$ (18,186)	$ 19,161,288

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Statement of Unrestricted Activities
Year Ended June 30, 2017

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Changes in unrestricted net assets					
Revenues, gains and other support					
Program administration fees	$ 4,155,133	$ -	$ -	$ (136,414)	$ 4,018,719
Management fees	3,289,071	-	-	(161,600)	3,127,471
Advisory fees	87,035	-	-	-	87,035
License fees	6,000	-	-	(1,000)	5,000
Public official bond revenue	-	481,118	-	-	481,118
Commissions - other	-	668,449	-	-	668,449
Membership dues	190,100	-	-	-	190,100
Training session fees	49,110	-	-	-	49,110
Interest and dividend income	724,356	2,504	999	(438,537)	289,322
Rental income	45,000	-	-	-	45,000
Endorsement and marketing fees	6,850	-	-	-	6,850
Service fees	36,755	-	-	-	36,755
KACo convention, net	10,451	-	-	-	10,451
Gain on disposal of equipment	9,000	-	-	-	9,000
Net realized and unrealized gains on investments	530,771	-	-	-	530,771
Miscellaneous	33,445	-	-	-	33,445
	9,173,077	1,152,071	999	(737,551)	9,588,596
Expenses					
Program services	5,285,935	533,104	-	-	5,819,039
Supporting services	1,761,978	347,471	5,190	(299,014)	1,815,625
Interest expense	32,211	-	-	-	32,211
Provision for (benefit from) income taxes	-	100,773	(920)	-	99,853
	7,080,124	981,348	4,270	(299,014)	7,766,728
Increase in Unrestricted Net Assets	2,092,953	170,723	(3,271)	(438,537)	1,821,868
Unrestricted Net Assets at Beginning of Year	12,958,115	420,209	379,054	(237,246)	13,520,132
Dividend issued to KACo	-	(300,000)	(138,537)	438,537	-
Return of capital upon dissolution	-	-	(237,246)	237,246	-
Unrestricted Net Assets at End of Year	$ 15,051,068	$ 290,932	$ -	$ -	$ 15,342,000

See independent auditor's report.

Kentucky Association of Counties, Inc. and Subsidiaries
Consolidating Schedule of Program and Supporting Services
Year Ended June 30, 2017

	KACo	KACo Insurance Agency, Inc.	KACo Financial Advisors, Inc.	Eliminations	Consolidated
Bank charges	$ 3,220	$ -	$ -	$ -	$ 3,220
Board expense	-	16,328	3,500	-	19,828
Commissions	-	19,714	-	-	19,714
Communication, promotion and liaison	292,159	1,850	-	-	294,009
Computer supplies	97,757	-	-	-	97,757
Consulting	-	-	1,650	-	1,650
Depreciation	567,240	-	-	-	567,240
Endorsement fee	-	44,189	-	-	44,189
Equipment and maintenance	30,881	-	-	-	30,881
Fringe benefits	1,732,945	-	-	-	1,732,945
Grounds and building maintenance	23,052	-	-	-	23,052
Insurance	90,984	26,962	-	-	117,946
Janitorial service	46,142	-	-	-	46,142
Miscellaneous	22,521	17	-	-	22,538
Office supplies	34,144	-	-	-	34,144
Postage	25,603	-	-	-	25,603
Printing	31,230	-	-	-	31,230
Professional dues	3,533	-	-	-	3,533
Professional fees	148,042	3,300	40	-	151,382
Program administration, management and license fees	-	299,014	-	(299,014)	-
Public official bond expense	-	469,201	-	-	469,201
Publications	6,501	-	-	-	6,501
Salaries	3,735,033	-	-	-	3,735,033
Telephone	61,592	-	-	-	61,592
Training session expenses	35,629	-	-	-	35,629
Utilities	59,705	-	-	-	59,705
	$ 7,047,913	$ 880,575	$ 5,190	$ (299,014)	$ 7,634,664

See independent auditor's report.