

Association of Arkansas Counties

Financial Statements
with Independent Auditor's Report

December 31, 2014 and 2013

Association of Arkansas Counties

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Board of Trustees
Association of Arkansas Counties
Little Rock, Arkansas

Independent Auditor's Report

We have audited the accompanying statements of financial position of the Association of Arkansas Counties (a nonprofit organization) as of December 31, 2014 and 2013, and the related statements of activities, net assets and the statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association of Arkansas Counties as of December 31, 2014 and 2013, and its changes in net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on pages 16-22 of this report, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

McIlroy • Keen • Goodman, LLP

July 9, 2015

Association of Arkansas Counties

Statements of Financial Position

December 31	2014	2013
Assets		
Cash and cash equivalents	\$ 223,871	\$ 96,077
Certificates of deposit	500,000	1,050,000
Investments - U. S. Government securities	7,280,005	6,643,158
Accounts receivable	257,274	140,805
Accrued interest receivable	72,408	78,035
Unexpired insurance	38,680	25,317
Other prepaid expenses	5,360	5,236
Property and equipment - net	3,907,119	2,955,861
Restricted assets - Automated Records Systems Trust	99,579	103,661
Total Assets	\$ 12,384,296	\$ 11,098,150
Liabilities and Net Assets		
<i>Liabilities</i>		
Accounts payable	\$ 4,971	\$ 2,559
Accrued expenses	13,896	15,396
Restricted liabilities - Automated Records Systems Trust	99,579	103,661
Total Liabilities	118,446	121,616
<i>Net Assets</i>		
Unrestricted net assets:		
Designated for capital improvements	2,943,276	4,386,789
Undesignated	9,322,574	6,589,745
Total Net Assets	12,265,850	10,976,534
Total Liabilities and Net Assets	\$ 12,384,296	\$ 11,098,150

The accompanying notes are an integral part of these financial statements.

Association of Arkansas Counties

Statements of Activities

For the Years Ended December 31	2014	2013
Revenues		
Program Revenues		
Members' dues	\$ 196,454	\$ 196,454
Service fees - benefit programs	2,410,939	2,291,543
Annual AAC conference	127,725	137,465
County Lines	33,050	37,350
County officials' directory	575	4,010
Drug and alcohol testing consortium	5,481	5,778
County compliance guides	0	180
Total Program Revenues	2,774,224	2,672,780
Other Revenues (Losses)		
Investment income	288,460	289,540
Rent income	62,665	54,186
Realized loss on the sale of marketable securities	(175)	0
Unrealized gains (losses) on marketable securities	936,848	(1,175,986)
Realized gain on the sale of fixed assets	0	1,800
Marketing and royalty income	19,768	17,967
Continuing education fees	30,000	30,000
Miscellaneous income	27,396	17,201
Total Other Revenues (Losses)	1,364,962	(765,292)
Total Revenues	4,139,186	1,907,488
Expenses		
Program	2,131,696	1,931,791
Administrative	718,174	655,807
Total Expenses	2,849,870	2,587,598
Increase (Decrease) in Unrestricted Net Assets	\$ 1,289,316	\$ (680,110)

The accompanying notes are an integral part of these financial statements.

Association of Arkansas Counties

Statements of Net Assets

	Unrestricted Net Assets		
	Designated- Capital Improvements	Undesignated- Members' Equity	Total Net Assets
Net Assets - January 1, 2013	\$ 4,086,789	\$ 7,569,855	\$ 11,656,644
Excess expenses over revenues	0	(680,110)	(680,110)
Designated for capital improvements	300,000	(300,000)	0
Net Assets - December 31, 2013	4,386,789	6,589,745	10,976,534
Excess revenues over expenses	0	1,289,316	1,289,316
Designated for capital improvements	250,000	(250,000)	0
Designated capital expenditures	(1,693,513)	1,693,513	0
Net Assets - December 31, 2014	\$ 2,943,276	\$ 9,322,574	\$ 12,265,850

The accompanying notes are an integral part of these financial statements.

Association of Arkansas Counties

Statements of Cash Flows

For the Years Ended December 31	2014	2013
Cash Flows From Operating Activities		
Cash received from members, rent and benefit programs	\$ 2,797,409	\$ 2,716,722
Cash paid to suppliers and employees	(2,721,197)	(2,470,686)
Interest received	294,087	287,101
Charitable contributions	(9,650)	(9,750)
Net cash provided by operating activities	360,649	523,387
Cash Flows From Investing Activities		
Proceeds from sale or redemption of investments	1,199,942	1,275,000
Purchase of investments	(349,941)	(1,378,355)
Proceeds from sale of property and equipment	0	1,800
Expenditures for property and equipment	(1,082,856)	(676,349)
Net cash used in investing activities	(232,855)	(777,904)
Cash Flows From Financing Activities		
None	0	0
Net increase (decrease) in cash and cash equivalents	127,794	(254,517)
Cash and cash equivalents - beginning of year	96,077	350,594
Cash and cash equivalents - end of year	\$ 223,871	\$ 96,077
Reconciliation of increase (decrease) in net assets to net cash provided by operating activities		
Increase (decrease) in net assets	\$ 1,289,316	\$ (680,110)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	131,598	121,661
Gain on sale of property and equipment	0	(1,800)
Unrealized market losses on investments	(936,848)	1,175,986
Decrease (increase) in assets		
Accounts receivable	(116,469)	(75,412)
Accrued interest receivable	5,627	(2,439)
Prepaid expenses	(13,487)	(13,664)
Increase (decrease) in liabilities		
Deferred revenue	0	(1,700)
Accounts payable	2,412	(2,854)
Accrued expenses	(1,500)	3,719
Total adjustments	(928,667)	1,203,497
Net cash provided by operating activities	\$ 360,649	\$ 523,387

The accompanying notes are an integral part of these financial statements.

Association of Arkansas Counties

Notes to the Financial Statements

Note 1 - Nature of Operations

Organization. The Association of Arkansas Counties (the Association) was incorporated April 10, 1968 under the provisions of the Arkansas Nonprofit Corporation Act. The stated purpose and aim of the Association is to aid in the improvement of county government in the state of Arkansas.

The Association has established two trusts, the Workers' Compensation Trust and the Risk Management Fund, for the purpose of administering two benefit programs (page 17). The Association's primary source of revenue is administrative service fees from these Trusts.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting. The Association of Arkansas Counties uses the accrual basis of accounting which recognizes income when earned and expense when incurred.

Basis of Presentation. Financial statement presentation follows the recommendations of generally accepted accounting principles. Under these principles, the Association 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. There were no temporarily or permanently restricted net assets at December 31, 2014 or 2013, respectively.

Income Taxes. The Association is exempt from federal income tax under Section 115 of the Internal Revenue Code. The Association requested and received a private letter ruling from the Internal Revenue Service stating that the income of the Association is excludable from gross income under Section 115 of the Internal Revenue Code; therefore, no income tax liability is reflected in the financial statements.

Property and Equipment. Property and equipment are stated at cost and are depreciated on a straight-line basis over estimated useful lives. Renewals and improvements, which materially increase the useful lives of property and equipment, are capitalized. Maintenance and repairs are charged to operations as incurred. Gains or losses on dispositions of property and equipment are reflected in earnings as realized.

Investments. Investments in certificates of deposit and U.S. Government securities are reported at fair market value when available or cost, which approximates fair market value. Unrealized gains and losses are included in the change in net assets.

Cash and Cash Equivalents. For purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash and/or cash equivalents.

Association of Arkansas Counties

Notes to the Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable and Allowance for Doubtful Accounts. Accounts receivable are stated at the amount the Association expects to collect. The Association maintains an allowance for doubtful accounts for estimated losses resulting from the failure of its customers to make required payments. The Association provides for estimated uncollectible accounts through a charge to earnings and a credit to a valuation allowance. Balances which remain outstanding after the Association has exercised reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. For the years ended December 31, 2014 and 2013, management feels no allowance is required and any uncollectible amount as of the end of the year would not be material.

Use of Estimates. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Membership Dues. Membership dues are billed annually and are based upon rates provided by Arkansas law. If the Quorum Court of the county authorizes participation in the Association, current law stipulates that one percent of the general revenues received by that county, from the County Aid Fund in the State Treasury during the preceding year, will be appropriated as dues to the Association. Participation in this Association is optional.

Compensated Absences. Employees of the Association are entitled to personal time off to use for vacation, personal business, and sick days, based upon length of service. The estimated amount of compensation due has been determined to be immaterial; therefore, no liability has been recorded in the accompanying financial statements.

Date of Management's Review. Management has evaluated subsequent events through July xx, 2015, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2014.

Note 3 - Cash and Cash Equivalents

	December 31, 2014	December 31, 2013
Petty cash	\$ 100	\$ 100
Cash in banks	223,771	95,977
Total Cash and Cash Equivalents	\$ 223,871	\$ 96,077

Note 4 - Certificates of Deposit

The certificates of deposit held as of December 31, 2014 and 2013, have interest rates ranging from 0.41% to 1.75%. All have an original maturity date of greater than three months and less than or equal to twenty-four months. At December 31, 2014 and 2013, \$300,000 and \$950,000 of certificates of deposit, respectively, would be considered current on a classified statement of financial position.

Association of Arkansas Counties

Notes to the Financial Statements

Note 5 - Investments - U.S. Government Securities

Investments in U.S. Government securities held as of December 31, 2014 and 2013, had interest rates ranging from 3.18% to 5.40%. The following is a summary of securities with current and long-term maturities:

	December 31, 2014	December 31, 2013
Current	\$ 0	\$ 0
Long-term	7,280,005	6,643,158
Total U.S. Government Securities	\$ 7,280,005	\$ 6,643,158

The balance of the U.S. Government securities includes a cumulative market value decrease of \$186,200 and a decrease of \$1,123,048 as of December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, the Statements of Activities include a positive market value adjustment of \$936,848 and a negative market value adjustment of \$1,175,986, respectively. Investments in U.S. Government securities are not subject to Federal Deposit Insurance Corporation (FDIC) insurance or collateralization.

Subsequent to December 31, 2014, the bond interest rate market has experienced changes. As of April 30, 2015, the Association's market value of U.S. government securities has increased by 5.98% or \$435,055. The Association will continue to monitor its investments as it has successfully done in the past, but has no immediate plans to change its investment portfolio.

Note 6 - Property and Equipment

	Cost	Accumulated Depreciation	Net Book Value
December 31, 2014			
Land	\$ 954,212	\$ 0	\$ 954,212
Furniture and equipment	363,818	353,465	10,353
Buildings and improvements	4,084,735	1,342,474	2,742,261
Vehicles	60,847	42,148	18,699
Website and technology	307,096	229,888	77,208
Land improvements	120,572	16,186	104,386
Construction in process	0	0	0
Total Property and Equipment	\$ 5,891,280	\$ 1,984,161	\$ 3,907,119
December 31, 2013			
Land	\$ 954,212	\$ 0	\$ 954,212
Furniture and equipment	362,287	348,128	14,159
Buildings and improvements	2,376,849	1,267,306	1,109,543
Vehicles	60,847	32,848	27,999
Website and technology	268,911	191,109	77,802
Land improvements	120,572	13,172	107,400
Construction in process	664,746	0	664,746
Total Property and Equipment	\$ 4,808,424	\$ 1,852,563	\$ 2,955,861

Depreciation expense charged against income for the years ended December 31, 2014 and 2013, was \$131,598 and \$121,661, respectively.

Association of Arkansas Counties

Notes to the Financial Statements

Note 6 - Property and Equipment (continued)

During the year ended December 31, 2013, the Association entered into an agreement with a general contractor to build an addition to the existing office building. Work on the new addition was completed in October 2014. The total construction in process was capitalized at this time, and accordingly, has been depreciated for the last three months of 2014. The cost of the addition totaled \$1,693,513 with new costs of \$1,028,767 being incurred in 2014.

Note 7 - Cash Deposits with Financial Institutions

The Association's cash deposits are categorized to give an indication of the level of risk assumed by the Association at December 31, 2014 and 2013. The categories are described as follows:

Category 1 - Insured and collateralized with securities held by the entity or by its agent in the entity's name

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or its agent in the entity's name.

Category 3 - Uncollateralized.

Description	Institution Balance	Category			Carrying Amount
		1	2	3	
December 31, 2014					
Certificates of Deposit	\$ 500,000	\$ 500,000	\$ 0	\$ 0	\$ 500,000
Cash - Operating	287,654	250,000	37,654	0	223,771
Total Cash Deposits	\$ 787,654	\$ 750,000	\$ 37,654	\$ 0	\$ 723,771
December 31, 2013					
Certificates of Deposit	\$ 1,050,000	\$ 1,050,000	\$ 0	\$ 0	\$ 1,050,000
Cash - Operating	118,052	118,052	0	0	95,777
Total Cash Deposits	\$ 1,168,052	\$ 1,168,052	\$ 0	\$ 0	\$ 1,145,777

The Association's cash balances fluctuate during the year and at times exceed the \$250,000 federally insured limit. As of December 31, 2014 and 2013, there were no uninsured or uncollateralized cash deposits.

Note 8 - Deferred Compensation Plan

Full-time employees of the Association of Arkansas Counties are eligible to contribute in a "457" deferred compensation plan administered by Nationwide Retirement Solutions. Pursuant to Section 457 of the Internal Revenue Code, a custodial account has been established for the exclusive benefit of the plan's participants and beneficiaries; therefore, plan assets and liabilities are not a part of the financial statements presentation. The Association does not match or contribute to this Plan.

Association of Arkansas Counties

Notes to the Financial Statements

Note 9 - Employees' Retirement Plans

Eligible employees of the Association currently participate in the Arkansas Public Employees Retirement System, a defined benefit plan.

- (A) *Plan Description and Eligibility.* All Association personnel working at least 90 days a year and at least 80 hours a month are covered under the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by state law and can be amended only by the Arkansas General Assembly. APERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201, or calling 1-800-682-7377.
- (B) *Funding Policy.* Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. For the years ended December 31, 2014 and 2013, the statutory employer rate was 14.76% and 14.88%, respectively, of the annual covered payroll. Employees hired on or after July 1, 2007, are required to contribute 5% of their annual payroll to the plan, while employees hired prior to July 1, 2005, could elect to contribute 5%. The Association's contribution to APERS for the years ending December 31, 2014 and 2013, was \$207,843 and \$188,725, respectively.

Note 10 - Lease Agreements

The Association owns commercial property that is currently being leased as follows:

310 South Victory Street. The Association entered into a three-year lease agreement on January 15, 2013 with rent escalating each year according to the following scale: 2013 - \$2,665 per month; 2014 - \$2,716 per month; 2015 - \$2,770 per month. The lessee has an option to renew indefinitely on a month to month basis after the three-year lease period. Rent received on this property was \$32,592 and \$31,980 for the years ended December 31, 2014 and 2013, respectively.

Acme Building. The Association entered into a five-year lease beginning in April 2012 with rent at \$1,800 per month for the first two years and \$2,000 per month for the final three years. The lessee has an option to renew five separate one-year terms after the five-year lease period, with rates to be negotiated at the time of each renewal. Rent received on this property was \$21,240 and \$20,880 for the years ended December 31, 2014 and 2013, respectively.

Association of Arkansas Counties Building. The Association entered into a three-year lease with the Arkansas Sheriff's Association, beginning in September 2014, with rent at \$2,000 per month. Upon expiration of the lease, the lessee has an option to continue on a month to month basis until either party gives a 30-day notice to terminate. Rent received on this property was \$8,000 for the year ended December 31, 2014.

Association of Arkansas Counties

Notes to the Financial Statements

Note 11 - Designated Net Assets

During the years ended December 31, 2014 and 2013, the Board of Directors of the Association for Arkansas Counties voted to set aside and designate \$250,000 and \$300,000, respectively, for the purpose of capital improvements. These funds are considered designated net assets until disbursed. Total designated funds available for capital improvements are \$2,943,276 and \$4,386,789 for the years ended December 31, 2014 and 2013, respectively. The Association has an addition to its building that was completed October 2014. The designated net assets have been reduced by the total cost of \$1,693,513, the addition for the year ended December 31, 2014 (See Note 6).

Note 12 - Service Fees - Benefit Programs

The Association of Arkansas Counties (the Association) serves as the administrator for the Association of Arkansas Counties Workers' Compensation Trust (WCT) and the Association of Arkansas Counties Risk Management Fund (RMF). The Association services all claims filed, and provides loss prevention services, administrative services and marketing assistance for a negotiated fee, determined annually. These fees are estimated for the year and paid monthly. An annual settlement occurs at the end of each year.

For the years ended December 31, 2014 and 2013, total fees paid or payable to the Association from WCT were \$1,204,959 and \$1,180,165, respectively. Fees for services payable to the Association from WCT were \$86,809 and \$74,100 at December 31, 2014 and 2013, respectively.

The Association also received administrative service fees from RMF in the amount of \$1,205,980 and \$1,111,378 for the years ended December 31, 2014 and 2013, respectively. Fees for services payable to the Association from RMF were \$127,295 and \$51,490 at December 31, 2014 and 2013, respectively.

Note 13 - Restricted Assets and Liabilities - Automated Records Systems Trust

During the 2007 regular session of the 86th Arkansas General Assembly, Act 615 was passed, amending Arkansas Code 14-20-107. This Act created a trust fund on the books of the Association of Arkansas Counties to be known as the "Automated Records Systems Trust" (the Trust). The Trust is to be funded by Class 6 and Class 7 counties by remitting to the Trust on a monthly basis \$1 for each document recorded in the specific county recorders' offices. These funds are to be administered by a committee comprised of the county recorders of the Class 6 and Class 7 counties and are to be used to fund automation of records systems in Class 1 through Class 5 counties by awarding grants to those counties who qualify. The Act requires the available funds to be substantially expended on an annual basis. Because the Association has no control over these funds or disbursements, the Trust is treated as an agency trust fund and reported on the Association's financial statements as restricted assets and liabilities.

Association of Arkansas Counties

Notes to the Financial Statements

Note 13 - Restricted Assets and Liabilities - Automated Records Systems Trust (continued)

During the years ended December 31, 2014 and 2013, the Trust reported the following transactions:

	2014	2013
Trust Income		
Fees collected and accrued	\$ 289,099	\$ 344,947
Investment income	272	382
Total Trust Income	<u>289,371</u>	<u>345,329</u>
Trust Expenditures		
Grants awarded to Class 1 - Class 5 counties	292,803	410,917
General and administrative expenses	650	625
Total Trust Expenditures	<u>293,453</u>	<u>411,542</u>
Excess Expenditures - Restricted for Trust's Purposes	(4,082)	(66,213)
Trust Fund Balance - Beginning of Year	103,661	169,874
Trust Fund Balance - End of Year	<u>\$ 99,579</u>	<u>\$ 103,661</u>
Restricted Assets of the Trust at December 31		
Cash in bank	\$ 75,955	\$ 77,598
Accounts receivable	23,624	26,063
Net Restricted Assets	<u>\$ 99,579</u>	<u>\$ 103,661</u>

Note 14 - Fair Value of Financial Instruments

The Association has adopted FASB ASC 820, Fair Value Measurements and Disclosures for Financial Assets and Liabilities (ASC 820), which defines fair value as an exit price, representing the amount 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs, other than Level 1 inputs, that are either directly or indirectly observable. This includes the cost basis for cash and cash equivalents and for certificates of deposit it held with various banks for which no active market exists.
- Level 3 - Unobservable inputs developed using the Association's estimates and assumptions, which reflect those that market participants would use.

Association of Arkansas Counties

Notes to the Financial Statements

Note 14 - Fair Value of Financial Instruments (continued)

The following table summarizes the Association's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013, segregated among the appropriate levels within the fair value hierarchy:

Description	Fair Value	Fair Value Using		
		Level 1	Level 2	Level 3
December 31, 2014				
Certificates of deposit	500,000	0	500,000	0
U. S. Government securities	7,280,005	7,280,005	0	0
December 31, 2013				
Certificates of deposit	1,050,000	0	1,050,000	0
U. S. Government securities	6,643,158	6,643,158	0	0

**Supplemental
Information**

Association of Arkansas Counties

History of the Organization and Comments

The Association of Arkansas Counties (the Association) was organized on February 13, 1968, with a meeting of two hundred Arkansas County officials in Little Rock. A Board of Directors and Officers were elected at that time.

Originally serving with the officers were eleven other county officials. In December 1980, the Board of Directors voted to add the Coroner's Association to their membership and add a County Coroner to the Board. In 1998, another position for the County Collector's Association was added, bringing the number of directors to the present seventeen. At December 31, 2014, the officers of the Association were as follows:

President	Mike Jacobs – Johnson County Judge
Vice President	Roger Haney – Washington County Treasurer
Secretary-Treasurer	Judy Beth Hutcherson – Clark County Treasurer

All directors serve without compensation; however, they do receive an expense allowance when attending meetings. The Secretary-Treasurer is custodian of the net assets of the Association and is responsible for the minutes of all official meetings of the Board of Directors and the membership.

The initial funding of the Association in February, March and April of 1968 came from the various Associations of County Officials, to wit:

Arkansas County Clerks Association	\$ 200
Arkansas Tax Assessors Association	200
Arkansas Circuit Clerks Association	200
Arkansas Sheriffs Association	250
Arkansas Association of County Judges	500
Arkansas County Treasurers Association	<u>200</u>
Total Initial Funding	<u>\$ 1,550</u>

During the years 1968 and 1969, additional funds were donated by these associations and other donors.

Act 92 of 1969 authorized the Quorum Courts of each of the counties in the State to appropriate from the county general funds an amount equal to one percent (1%) of the general revenues received from the County Aid Fund in the State Treasury. The first county to participate under the act was Woodruff County, which made the initial contribution in November 1969.

The Association was the defendant in a taxpayer's suit for injunction and declaratory relief, which sought to prohibit the counties of the State from contributing public funds to the Association. In a final decree issued by Chancellor James Chestnutt of Garland County, based on a memorandum opinion dated October 10, 1977, and Act 92 of 1969, the activities of the Association were found to be constitutional. The final decree of the Chancery Court, which was not appealed, removed any contingent liability regarding the constitutionality of the financial participation of the counties in the Association.

Act 92 of 1969 specifies that only the Quorum Court of each county can authorize the county to pay dues to the Association. All counties of the state were members of the Association in 2014 and 2013. The schedule on page 22 shows the amount paid by each County to the Association for the years ended December 31, 2014 and 2013.

Association of Arkansas Counties

History of the Organization and Comments (continued)

Records, Reports and Record Keeping

The financial records and books of the Association were found to be complete and accurate. Paid bills or vouchers were made available for our inspection and we were furnished all requested supporting documentation for expenditures. An Annual Budget is prepared for the Board of Directors that compares actual expenditures with those budgeted. A comparison of revenues, certain expenses and fixed asset purchases to the budget is presented as supplementary information to the financial statements. Monthly financial reports are presented to the Directors at their meetings, keeping them informed regarding the financial affairs of the Association. The books and other financial records appear to have been maintained on a current monthly basis. Complete and descriptive minutes of all official meetings of the Board of Directors and the membership have been kept as a permanent record of the activities of the Association.

All record keeping is done in the Little Rock office. Cindy Posey serves as accountant for the Association. The operations of the Association are under the general supervision of the Executive Director, Chris Villines.

Workers' Compensation Trust

The Association has established a Trust for the purpose of administering a Self-Insured Workers' Compensation Insurance program for its member counties. Effective January 1, 1998, all of the operations of the Trust have been handled by the Association of Arkansas Counties. Prior to this date, a private administrator provided these services. The activities of the Trust are under the direction of five trustees, three of whom serve on the Association of Arkansas Counties' Board, and two of whom serve at-large. The financial statements of the Trust are not included in these financial statements, since it is a separate and distinct entity and the Association has no right or claim on any of the Trust's net assets. The Trust is the subject of a separate audit.

Risk Management Fund

The Association has established a Trust for the purpose of administering a Risk Management Program for its member counties. A private administrator provided claims services for the Trust through March 24, 1998. Effective March 25, 1998, all of the operations of the Trust have been handled by the Association of Arkansas Counties. The activities of the Trust are under the direction of seven trustees, who are officers of member counties of the AAC Risk Management Fund. The financial statements of the Trust are not included in these financial statements, since it is a separate and distinct entity and the Association has no right or claim on any of its net assets. The Trust is the subject of a separate audit.

Scholarship Trust

On April 3, 1985, the Association established the Association of Arkansas Counties Scholarship Trust. The purpose of the Trust is to establish and maintain a college scholarship fund to provide financial assistance to students attending a college or other qualifying educational institution of their choice. The Trust has tax-exempt status under Section 501 (c) (3) of the Internal Revenue Code. A three person Board of Trustees directs the Trust. The Association funded the Trust with an initial contribution of \$1,500. The financial statements of the Trust are not included in these financial statements since it is a separate and distinct entity and the Association has no right or claims on any of its net assets.

Association of Arkansas Counties

Schedules of Expenses

For the Years Ended December 31	2014			2013		
	Program	Administrative	Total	Program	Administrative	Total
	Expenses	Expenses		Expenses	Expenses	
Salaries	\$ 1,112,407	\$ 295,703	\$ 1,408,110	\$ 1,026,338	\$ 272,824	\$ 1,299,162
Insurance - employees' group	123,358	32,791	156,149	126,628	33,661	160,289
Retirement plan	164,196	43,647	207,843	149,093	39,632	188,725
Taxes - payroll	88,109	23,421	111,530	80,567	21,417	101,984
Taxes - property	6,123	1,627	7,750	5,387	1,432	6,819
Personnel training	8,111	1,451	9,562	7,700	1,375	9,075
Travel - staff	12,608	3,351	15,959	7,590	2,017	9,607
Legislative consultant	53,980	0	53,980	54,969	0	54,969
Legislative session	31,476	0	31,476	36,816	0	36,816
County NACo dues	62,639	0	62,639	58,837	0	58,837
Annual AAC conference	180,095	0	180,095	149,507	0	149,507
County officials' directory	0	0	0	8,534	0	8,534
Board of Directors' expense	29,507	0	29,507	19,746	0	19,746
Meetings and conferences	72,617	0	72,617	36,193	0	36,193
County Lines	33,316	0	33,316	25,801	0	25,801
Scholarship fund donation	9,650	0	9,650	9,750	0	9,750
Special projects	31,286	0	31,286	23,698	0	23,698
Office and postage	53,684	14,271	67,955	49,328	13,113	62,441
Printing costs	7,841	2,084	9,925	8,147	2,166	10,313
Service contracts - equipment	19,869	5,281	25,150	19,367	5,148	24,515
Utilities and telephone	30,824	8,194	39,018	27,795	7,388	35,183
Depreciation	0	131,597	131,597	0	121,660	121,660
Auto	0	10,236	10,236	0	9,212	9,212
Credit card fees	0	2,026	2,026	0	1,671	1,671
Dues and subscriptions	0	10,977	10,977	0	9,692	9,692
Insurance - general	0	35,329	35,329	0	29,333	29,333
Maintenance and repairs	0	33,518	33,518	0	32,914	32,914
Professional services	0	9,995	9,995	0	9,250	9,250
Rental property	0	2,530	2,530	0	5,746	5,746
System software support	0	50,145	50,145	0	36,156	36,156
Total Expenses	\$ 2,131,696	\$ 718,174	\$ 2,849,870	\$ 1,931,791	\$ 655,807	\$ 2,587,598

Association of Arkansas Counties

Schedule of Revenues, Budgeted Expenses and Fixed Asset Purchases
Actual to Budget

For the Year Ended December 31, 2014	Actual	Budget	Favorable (Unfavorable)
Budgeted Revenues:			
Members' dues	\$ 196,454	\$ 196,454	\$ 0
Annual conference	127,725	127,000	725
Service fees - benefit programs	2,410,939	2,400,007	10,932
Investment income	288,460	250,000	38,460
Rent income	62,665	66,132	(3,467)
County officials' directory	575	0	575
Drug and alcohol testing	5,481	5,700	(219)
Photocopy and postage reimbursements	2,203	2,750	(547)
Legal reimbursements	25,808	40,000	(14,192)
Continuing education fees	30,000	30,000	0
Other income	52,028	50,700	1,328
Total Budgeted Revenues	3,202,338	3,168,743	33,595
Budgeted Expenses and Fixed Asset Purchases:			
Annual conference	180,095	165,000	(15,095)
Auto	6,247	10,000	3,753
Auto insurance	3,989	4,200	211
Bank charges	2,941	2,800	(141)
Board of Directors' expense	29,507	26,000	(3,507)
County NACo dues	62,639	62,639	0
Dues and subscriptions	10,977	10,000	(977)
Insurance - property	15,228	15,500	272
Insurance - dental	9,584	9,400	(184)
Insurance - vision	2,014	2,100	86
Insurance - employees' group	147,104	146,000	(1,104)
Insurance - D&O Bonds	7,859	8,000	141
Janitorial service	14,423	18,000	3,577
Lawyer's professional liability insurance	7,324	10,000	2,676
Legislative consultant	48,000	48,000	0
Legislative consultant expense	5,980	6,000	20
Legislative session	31,476	37,000	5,524
Maintenance and repairs	19,095	25,000	5,905
NACo summer conference	23,801	20,000	(3,801)
NACo legislative conference	12,437	8,000	(4,437)
NCCAE meeting	4,097	7,000	2,903
Meetings and conferences - other	32,282	27,000	(5,282)
Subtotal of Budgeted Expenses and Fixed Asset Purchases	\$ 677,099	\$ 667,639	\$ (9,460)

Association of Arkansas Counties

Schedule of Revenues, Budgeted Expenses and Fixed Asset Purchases (continued)
Actual to Budget

For the Year Ended December 31, 2014	Actual	Budget	Favorable (Unfavorable)
Budgeted Expenses and Fixed Asset Purchases: (continued)			
Sub-total carried forward from previous page	\$ 677,099	\$ 667,639	\$ (9,460)
County Lines	33,316	34,000	684
Office and postage	60,390	67,000	6,610
Personnel training	9,562	10,000	438
Printing	9,925	12,000	2,075
Professional services	9,995	13,500	3,505
Refreshments	2,306	2,500	194
Rental property	2,530	15,000	12,470
Retirement plan	207,843	205,753	(2,090)
Salaries	1,412,454	1,405,000	(7,454)
Scholarship fund donation	9,650	10,000	350
Service contracts - equipment	25,150	25,000	(150)
Special projects	31,286	60,000	28,714
Systems software/support	50,145	45,000	(5,145)
Taxes - payroll	111,530	126,000	14,470
Taxes - property	7,750	7,750	0
Telephone	11,049	15,000	3,951
Travel - staff	15,959	12,000	(3,959)
Utilities	27,969	30,000	2,031
Workers' compensation insurance	2,365	2,500	135
Capital Items:			
Fixed assets, computer equipment, software	55,644	50,000	(5,644)
Board designated - capital fund improvements	0	250,000	250,000
Total Budgeted Expenses and Fixed Asset Purchases	2,773,917	3,065,642	291,725
Excess Revenues Over Budgeted Expenses and Fixed Asset Purchases	\$ 428,421	\$ 103,101	\$ 325,320

Amounts in the Actual column do not include unbudgeted categories of depreciation expense of \$131,598 and unrealized gain on investments of \$936,848.

Association of Arkansas Counties

Schedules of Cash and Investments

For the Years Ended December 31	2014	2013
Cash and Investments		
Cash and Cash Equivalents:		
Petty cash on hand	\$ 100	\$ 100
Bank of the Ozarks	223,771	95,977
Certificates of Deposit:		
Signature Bank of Arkansas	100,000	200,000
DeWitt Bank & Trust	0	100,000
First State Bank - Lonoke	100,000	200,000
Horatio State Bank	200,000	200,000
Hot Springs Bank & Trust	0	150,000
Malvern National Bank	100,000	100,000
One Bank & Trust	0	100,000
Government Bonds:		
<i>Held in -</i>		
Raymond James Investments	5,400,625	4,748,970
First National Bankers Bank	876,913	948,267
Crews Investments	1,002,467	945,921
Total Cash and Investments	\$ 8,003,876	\$ 7,789,235

Association of Arkansas Counties

Schedules of Members' Dues by County

County	Years Ended December 31,		County	Years Ended December 31,		County	Years Ended December 31,	
	2014	2013		2014	2013		2014	2013
Arkansas	\$ 2,285	\$ 2,285	Garland	\$ 3,582	\$ 3,582	Newton	\$ 2,105	\$ 2,105
Ashley	2,333	2,333	Grant	2,265	2,265	Ouachita	2,404	2,404
Baxter	2,664	2,664	Greene	2,673	2,673	Perry	2,140	2,140
Benton	5,693	5,693	Hempstead	2,345	2,345	Phillips	2,331	2,331
Boone	2,586	2,586	Hot Spring	2,519	2,519	Pike	2,155	2,155
Bradley	2,158	2,158	Howard	2,197	2,197	Poinsett	2,379	2,379
Calhoun	2,055	2,055	Independence	2,582	2,582	Polk	2,313	2,313
Carroll	2,427	2,427	Izard	2,195	2,195	Pope	3,005	3,005
Chicot	2,163	2,163	Jackson	2,268	2,268	Prairie	2,111	2,111
Clark	2,352	2,352	Jefferson	3,269	3,269	Pulaski	8,411	8,411
Clay	2,235	2,235	Johnson	2,395	2,395	Randolph	2,267	2,267
Cleburne	2,402	2,402	Lafayette	2,093	2,093	Saline	3,769	3,769
Cleveland	2,111	2,111	Lawrence	2,258	2,258	Scott	2,154	2,154
Columbia	2,378	2,378	Lee	2,140	2,140	Searcy	2,103	2,103
Conway	2,323	2,323	Lincoln	2,203	2,203	Sebastian	4,082	4,082
Craighead	3,589	3,589	Little River	2,186	2,186	Sevier	2,252	2,252
Crawford	3,008	3,008	Logan	2,341	2,341	Sharp	2,255	2,255
Crittenden	2,822	2,822	Lonoke	3,116	3,116	St. Francis	2,440	2,440
Cross	2,265	2,265	Madison	2,229	2,229	Stone	2,173	2,173
Dallas	2,101	2,101	Marion	2,245	2,245	Union	2,666	2,666
Desha	2,184	2,184	Miller	2,697	2,697	Van Buren	2,256	2,256
Drew	2,276	2,276	Mississippi	2,747	2,747	Washington	5,385	5,385
Faulkner	3,872	3,872	Monroe	2,102	2,102	White	3,263	3,263
Franklin	2,270	2,270	Montgomery	2,124	2,124	Woodruff	2,087	2,087
Fulton	2,171	2,171	Nevada	2,116	2,116	Yell	2,338	2,338
Total Members' Dues by County						\$ 196,454	\$ 196,454	