

KENTUCKY BAR ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended
June 30, 2015 and June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors
Kentucky Bar Association
Frankfort, Kentucky

We have audited the accompanying financial statements of Kentucky Bar Association (a non-profit organization) which comprise the statements of financial position as of June 30, 2015 and June 30, 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Kentucky Bar Association as of June 30, 2015 and June 30, 2014, and the changes in its net assets and its 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 financial statements as a whole. The supplementary information contained on pages 17 through 22 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Rudler, PSC

Ft. Wright, Kentucky
January 6, 2016

KENTUCKY BAR ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and June 30, 2014

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
ASSETS:		
Cash	\$ 1,767,851	\$ 941,294
Certificate of Deposit	563,509	561,636
Investments	7,485,172	7,438,636
Accounts receivable	88,306	92,612
Due from affiliate	72,408	67,604
Interest receivable	17,941	7,149
Prepaid expenses	<u>69,624</u>	<u>90,593</u>
 Total Current Assets	 10,064,811	 9,199,524
 Property, building and equipment, net	 <u>3,130,641</u>	 <u>3,035,668</u>
 TOTAL ASSETS	 <u><u>\$ 13,195,452</u></u>	 <u><u>\$ 12,235,192</u></u>
 LIABILITIES:		
Accounts payable	\$ 315,764	\$ 271,161
Accrued expenses	405,714	319,346
Current maturities of bonds payable	<u>125,000</u>	<u>120,000</u>
 Total Current Liabilities	 846,478	 710,507
 Deferred revenue	 14,366	 23,464
Bonds payable, less current maturities	<u>590,000</u>	<u>715,000</u>
 Total Liabilities	 <u>1,450,844</u>	 <u>1,448,971</u>
 NET ASSETS:		
Unrestricted -		
Board designated	362,682	525,547
Undesignated	<u>11,381,926</u>	<u>10,260,674</u>
	<u>11,744,608</u>	<u>10,786,221</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 13,195,452</u></u>	 <u><u>\$ 12,235,192</u></u>

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

KENTUCKY BAR ASSOCIATION
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2015 and June 30, 2014

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
UNRESTRICTED NET ASSETS:		
REVENUE AND SUPPORT:		
Membership dues	\$ 4,729,706	\$ 4,656,068
Other dues	176,468	176,041
Investment income/realized gain(loss)	944,781	356,010
Sections income	153,614	155,500
Reimbursement of costs	97,277	69,585
Attorney Advertising Commission	115,491	119,375
Pro Hac Vice	202,508	235,170
Publications/Communications	83,260	79,748
Conventions and Conferences	477,503	444,016
Rent of building	9,600	9,600
Net change in the fair value of investments	(787,177)	259,529
Other revenue and support	581,002	660,391
Total Revenue and Support	<u>6,784,033</u>	<u>7,221,033</u>
EXPENSES:		
Program Services:		
Sections	160,591	142,144
Board of Governors, Officers, Committees	121,970	111,345
Disciplinary/Unauthorized practice	1,688,514	1,569,358
Disciplinary Clerk's Office	100,880	105,500
Publications/Communications	295,739	281,760
Conventions and Conferences	383,231	408,079
Attorney Advertising Commission	91,915	82,787
Lawyers Assistance Program	205,358	185,649
Continuing Legal Education	1,050,641	1,022,079
Client Security	27,536	174,516
Bar Center	286,746	338,433
Donated Legal Services	0	354
Total Program Services	<u>4,413,121</u>	<u>4,422,004</u>
Supporting Services:		
Management and General	<u>1,412,525</u>	<u>1,333,225</u>
Total Expenses	<u>5,825,646</u>	<u>5,755,229</u>
INCREASE (DECREASE) IN NET ASSETS	958,387	1,465,804
NET ASSETS AT BEGINNING OF YEAR	<u>10,786,221</u>	<u>9,320,417</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 11,744,608</u></u>	<u><u>\$ 10,786,221</u></u>

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

KENTUCKY BAR ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2015 and June 30, 2014

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 958,387	\$ 1,465,804
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	133,102	134,719
Net (increase) decrease in the fair value of investments	787,176	(259,529)
Realized (gains)/ losses on sales of investments	(798,327)	(230,120)
(Increase) decrease in operating assets		
Accounts receivable	4,306	(7,244)
Due from affiliate	(4,804)	(9,244)
Prepaid expenses	20,969	(10,543)
Interest receivable	(10,792)	(4,856)
Increase (decrease) in operating liabilities		
Accounts payable	44,603	(162,334)
Accrued expenses	86,368	26,815
Deferred revenue	(9,098)	4,694
Funds held	0	(794)
	<u>1,211,890</u>	<u>947,368</u>
Net Cash Provided (Used) By Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(228,076)	(61,176)
Disposition of property and equipment	0	(47,550)
Purchase of certificate of deposit	0	(500,000)
Purchase of investments	(3,037,072)	(1,075,290)
Proceeds from sale of investments	2,999,815	1,866,791
	<u>(265,333)</u>	<u>182,775</u>
Net Cash Provided (Used) By Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long term debt	(120,000)	(615,000)
	<u>(120,000)</u>	<u>(615,000)</u>
Net Cash Used By Financing Activities		
Net Increase (Decrease) in Cash	826,557	515,143
Cash, Beginning of Year	941,294	426,151
Cash, End of Year	<u>\$ 1,767,851</u>	<u>\$ 941,294</u>

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

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The statements presented are those of the Kentucky Bar Association (KBA). This is an agency of the judicial branch of the Commonwealth of Kentucky. The KBA implements, administers and enforces Kentucky Supreme Court Rules regarding the discipline and education of the lawyers of Kentucky and is the professional association for the practice of law in Kentucky.

Fund Accounting

The KBA is an agency that provides various services which are maintained in accounts in accordance with the principles and practices of "fund accounting". Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives as specified, in accordance with regulations, restrictions, or limitations imposed by sources outside the organization, or in accordance with directions issued by the governing board. The assets, liabilities, and net assets of the Association are reported in six self-balancing fund groups, a description of which is as follows:

General Fund The General Fund is engaged in the administrative, general and disciplinary functions of the Association, primarily dealing with Kentucky attorneys and the practice of law within the Commonwealth of Kentucky.

Continuing Legal Education Fund The Continuing Legal Education Fund administers the continuing legal education rules of the Supreme Court, which includes mandatory continuing legal education attorney records, Kentucky Law Updates and New Lawyers' Skills Programs.

Client Security Fund The Client Security Fund provides assistance to individuals who have suffered financial loss due to misappropriation of clients' funds by members of the KBA. During the 2014 – 2015 fiscal year, 42 new claims were received alleging losses totaling approximately \$966,967. During the 2013 – 2014 fiscal year, 37 new claims were received alleging losses totaling approximately \$1,434,889.

The Board of Governors has established Fund claim limits of \$50,000 per claim and \$150,000 aggregate claims against one attorney; accordingly, the total exposure was approximately \$435,257 for the year ended June 30, 2015 and \$443,088 for the year ended June 30, 2014.

Bar Center Headquarters Trustees Fund The Bar Center Headquarters Trustees Fund acts for the KBA in all matters incidental to the ownership, management, and control of the Bar Center building.

Bar Center Fund The Capital Construction Fund was merged with The Bar Center Fund for the furnishing and maintenance of the Bar Center building located in Frankfort, Kentucky.

Donated Legal Services Fund The Donated Legal Services Fund accounts for dues allocated for pro bono efforts.

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

Basis of Financial Statements

The KBA prepares its financial statements on the accrual basis of accounting. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following accounting policies are presented to facilitate the understanding of information presented in the financial statements.

Presentation

The financial statements are presented in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the KBA 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. Unrestricted net assets are not subject to donor-imposed restrictions and may be designated for specific purposes by action of the Board of Governors. Temporarily restricted net assets are subject to donor-imposed restrictions that can be fulfilled by actions of the organization pursuant to those restrictions or that expire by the passage of time. Permanently restricted net assets are subject to donor-imposed restrictions that they be maintained permanently. The KBA has no temporarily or permanently restricted net assets as of June 30, 2015 and June 30, 2014.

Cash and Cash Equivalents

The KBA considers cash in operating bank accounts to be cash and cash equivalents. Money Market accounts in investments are not included in cash and cash equivalents.

Supplemental Disclosure of Cash Flow Information:	<u>2015</u>	<u>2014</u>
Cash paid during the year for interest	<u>\$41,750</u>	<u>\$68,958</u>
Cash paid during the year for unrelated business tax	<u>\$ 858</u>	<u>\$ 225</u>

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. See Note K for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Association's gains and losses on investments bought and sold as well as held during the year.

Fixed Assets

Fixed assets are stated at cost. Major renewals and improvements are charged to the fixed asset accounts. Expenditures greater than \$500 and which increase values or extend useful lives of the respective assets, are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. At the time fixed assets are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

Revenue

The major source of revenue is membership dues. All members are required to pay dues to the KBA, with the exception of those members whose status is Senior Counselor, Senior Retired Inactive, and Disabled Inactive. Dues are determined annually and are recognized as revenues when assessed because they are measurable and are collectible within the current period.

Depreciation

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. Depreciation expense was \$133,102 for the year ended June 30, 2015 and \$134,719 for the year ended June 30, 2014. Estimated useful lives for purposes of depreciation are as follows:

Bar Center building	50 years
Furniture, fixtures and equipment	5-10 years

Pension Plan

The Association participates as members of the Kentucky Employee Retirement System (KERS), a cost sharing, multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty-five, or after less than twenty-seven years of service. The plan also provides for disability retirement, death and survivor benefits and medical insurance.

The Kentucky Employee Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601 or by calling (502)564-4646.

Funding for the plan is provided by eligible employees who contribute 5% of their salary, 6% for employees hired after September 1, 2008, through payroll deductions and the Association, which contributed 38.77% of current eligible employee's salary to the KERS during the fiscal year June 30, 2015 and 26.79% during the fiscal year June 30, 2014. The KBA's contribution rates are determined by Kentucky Revised Statute and the Board of Trustees of the Kentucky Retirement Systems biennium. The KBA's contributions totaled \$901,207 for the fiscal year ending June 30, 2015 and \$632,206 for the fiscal year ending June 30, 2014.

NOTE B – INVESTMENTS

Investments are administered utilizing the services of the trust department of a bank. These investments are Level 1 investments, which include investments that are uninsured and unregistered held by the counterparty's trust department or agent in the KBA's name. Investment service fees of approximately \$21,848 have been included in bank and investment fees in the statement of activities for the year ended June 30, 2015 and \$28,854 for the year ended June 30, 2014. All investments have been classified as current assets in the accompanying statement of financial position since proceeds would be available to the KBA upon request to the trust department of the bank.

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

A summary of investments at June 30, 2015 is as follows:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains/Losses</u>
KBA Long Term Portfolio -			
Money Market Funds	\$ 253,080	\$ 253,080	\$ 0
Fixed income	1,571,581	1,512,632	(58,949)
Equities	3,276,824	3,462,442	185,618
	<u>5,101,485</u>	<u>5,228,154</u>	<u>126,669</u>
KBA Short Term Portfolio -			
Money Market Funds	1,035,015	1,035,015	0
Fixed income	1,223,765	1,222,003	(1,762)
	<u>2,258,780</u>	<u>2,257,018</u>	<u>(1,762)</u>
Total	<u>\$ 7,360,265</u>	<u>\$ 7,485,172</u>	<u>\$ 124,907</u>

A summary of investments at June 30, 2014 is as follows:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains/Losses</u>
KBA Long Term Portfolio -			
Money Market Funds	\$ 150,450	\$ 150,450	\$ 0
Fixed income	1,294,823	1,287,116	(7,707)
Equities	2,046,178	2,965,968	919,790
	<u>3,491,451</u>	<u>4,403,534</u>	<u>912,083</u>
KBA Short Term Portfolio -			
Money Market Funds	3,035,102	3,035,102	0
	<u>3,035,102</u>	<u>3,035,102</u>	<u>0</u>
Total	<u>\$ 6,526,553</u>	<u>\$ 7,438,636</u>	<u>\$ 912,083</u>

Investment return is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 146,455	\$ 125,890
Realized gains(losses)	798,326	230,121
Change in fair value	<u>(787,177)</u>	<u>259,529</u>
	<u>\$ 157,604</u>	<u>\$ 615,540</u>

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE C – INCOME TAX STATUS

The KBA is not a private foundation and is exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954, except on certain unrelated business income, which is not material. The KBA believes it is no longer subject to income tax examinations for the fiscal years prior to June 30, 2012. There are currently no audits for any tax periods in progress.

NOTE D – LEASES

The KBA entered into 6 leases for office equipment during April 2015. The leases are all for 48 months under non-cancelable operating leases expiring in April 2019. The month payments range from \$130 to \$465 a month. The total monthly payment for the leased office equipment is \$1,853.

The KBA entered into a lease for a mailing system during December 2014. The lease is for 60 months under a non-cancelable operating leases expiring in December 2020 with a month payment of \$540.

The KBA incurred approximately \$34,014 of lease-related expense in the year ended June 30, 2015 and \$33,526 in the year ended June 30, 2014. These leases are classified as operating with minimum rental commitments as follows:

Year Ending, June 30,	
2016	\$ 28,970
2017	28,708
2018	28,708
2019	25,002
2020	<u>3,777</u>
	<u>\$115,165</u>

NOTE E – LONG-TERM DEBT

Long-term debt is comprised of the following as of June 30,

	<u>2015</u>	<u>2014</u>
2.0% - 5.0% Kentucky Bar Center Headquarters Project Bonds Series 2003, payable with semi-annual interest payments and annual principal payments, with final payment due April 1, 2021	\$ 715,000	\$ 835,000
Less current portion	<u>(125,000)</u>	<u>(120,000)</u>
	<u>\$ 590,000</u>	<u>\$ 715,000</u>

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

During October 2002, the KBA issued \$2,390,000 in City of Frankfort, Kentucky Governmental Project Revenue Obligation Bonds with rates of 2.0% - 5.0%. In order to retire the revenue bonds, the KBA is required to make deposits to sinking funds in amounts sufficient to meet the principal and interest payments due for the required semi-annual installments. The bonds are secured by membership dues revenue. In compliance with bond requirements the KBA maintains a separate bond sinking fund cash account included in cash and cash equivalents on the statement of financial position. During the year ended June 30, 2014, KBA was authorized by the Judicial Branch of the Commonwealth of Kentucky to retire \$500,000 of the City of Frankfort, Kentucky Governmental Project Revenue Obligation Bonds.

The principal and interest repayment requirements relating to the above long-term debt at June 30, 2015 are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 125,000	35,750	160,750
2017	135,000	29,500	164,500
2018	140,000	22,750	162,750
2019	145,000	15,750	160,750
2020	155,000	8,500	163,500
Thereafter	15,000	7,500	22,500
	<u>\$ 715,000</u>	<u>\$ 119,750</u>	<u>\$ 834,750</u>

Interest expense for the year ended June 30, 2015 was \$41,750 and for the year ended June 30, 2014 was \$68,958.

NOTE F – RELATED PARTY

The Kentucky Bar Foundation, Inc. (the Foundation) is a related party to the Kentucky Bar Association in that both organizations share common facilities and that the KBA provides payroll services for the Foundation.

The following summarizes significant transactions and balances between the two at June 30, 2015 and June 30, 2014 and for the years then ended.

	<u>2015</u>	<u>2014</u>
Accounts receivable from Foundation	<u>\$72,408</u>	<u>\$67,604</u>
Rent paid or payable to the KBA from Foundation	<u>\$ 9,600</u>	<u>\$ 9,600</u>

NOTE G – COMPENSATED ABSENCES

In prior years the KBA has allowed a carryover of a maximum of forty-five unused vacation days accumulated through year-end. For fiscal years 2015 and 2014, the KBA allowed in excess of forty-five unused vacation days until October 31, 2015. Accordingly, for these future compensated absences, the KBA had accrued expenses of \$176,163 in the general fund and \$47,805 in the continuing legal education fund for the year ended June 30, 2015 and \$179,817 in the general fund and \$48,584 in the continuing legal education fund for the year ended June 30, 2014.

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE H – DESIGNATED FUND BALANCE

By Board resolution, the General Fund surplus for Sections and Lawyer's Assistance Program funds are allowed to be carried over to the next ensuing budget year and have been designated as such. Any current year excess support and revenue over expenses excluding the current effects of the aforementioned carryforward funds less transfers made to other funds may be transferred to related investment accounts for future operating needs.

NOTE I – CONTINGENCIES

The Association is subject to various other claims and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or by accruals when determinable. There are also matters that are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Association, if disposed of unfavorably.

NOTE J – EQUIPMENT

Equipment at June 30, 2015, consists of the following:

Property, building, and equipment	\$	5,751,926
Vehicle		28,375
Less accumulated depreciation		<u>2,649,660</u>
	\$	<u>3,130,641</u>

NOTE K – FAIR VALUE MEASUREMENT

The Association's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association 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 fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices of identical assets, and Level 3 inputs are unobservable and have the lowest priority. The Association uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Association measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or Level 3 inputs were available to the Association.

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

Fair Value Measurement (cont'd)

Level 1 Fair Value Measurements

The fair value of common stocks and money market funds, are based on closing price reported on the active market for the securities at the end of the year.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of June 30, 2015 and June 30, 2014.

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
June 30, 2015		
Money market funds	\$ 1,288,095	\$ 1,288,095
Fixed income	2,734,635	2,734,635
Equities	<u>3,462,442</u>	<u>3,462,442</u>
Total assets at fair value	<u>\$ 7,485,172</u>	<u>\$ 7,485,172</u>

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
June 30, 2014		
Money market funds	\$ 3,185,551	\$ 3,185,551
Fixed income	1,287,116	1,287,116
Equities	<u>2,965,969</u>	<u>2,965,969</u>
Total assets at fair value	<u>\$ 7,438,636</u>	<u>\$ 7,438,636</u>

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE L - MULTI-EMPLOYER DEFINED BENEFIT PENSION PLAN

As mentioned in the Summary of Significant Accounting Policies note, the Association participates with other organizations in the KERS's defined benefit pension plan. The risks of participating in this multi-employer plan are different from single-employer plans in the following aspects:

1. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in this multi-employer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. This amount is estimated to be \$12,950,714 at June 30, 2015.

The Association's participation in the plan for the annual period ended June 30, 2015 is outlined in the following table. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented.

<u>Pension Fund</u>	<u>EIN/Pension</u>	<u>FIP/RP Status Pending/ Implemented</u>	<u>Contributions of the Association for the period ended June 30, 2015</u>	<u>Surcharged Imposed</u>
Pension plan for employees of KERS and affiliated agencies	61-0488768	Yes	\$ 962,739	No

As determined by the plan's actuary, the Association is noted as providing less than 5% of the total contributions for plan year ended June 30, 2015. At the date the financial statements were issued the Form 5500 was not available for the plan year ending in 2014.

At June 30, 2015, the plan was underfunded and the Association's potential liability for future years due to the underfunding has been estimated at approximately \$12,950,714, based on the current plan's actuarial data and asset value as of January 1, 2014. The actual minimum funding requirements for the future will be determined at each anniversary date. The Association does not intend to withdraw from the Plan.

KENTUCKY BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE M - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, which may at times exceed federally insured limits. The Organization places its cash with high credit quality financial institutions. The cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor in each institution. At times during the year, the Organization exceeded the \$250,000 insured by the FDIC.

NOTE N – SUBSEQUENT EVENTS

KBA's management has evaluated events through January 6, 2016 , the date on which the financial statements were available for issue.

SUPPLEMENTARY INFORMATION

KENTUCKY BAR ASSOCIATION
COMBINING STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS	General Fund	Continuing Legal Education Fund	Client Security Fund	Bar Center Headquarters Trustees Fund	Bar Center Fund	Donated Legal Services Fund	Interfund Eliminations	Total
CURRENT ASSETS:								
Cash	\$ 1,593,096	\$ 53,665	\$ 46,968	\$ 4,267	\$ 10,187	\$ 59,668	\$ 0	\$ 1,767,851
Certificate of Deposit	503,209					60,300		563,509
Investments	4,680,703	1,861,170	605,974		337,325			7,485,172
Accounts receivable	36,978	51,328						88,306
Interfund receivable	222,415			128,667			(351,082)	0
Due from Bar Foundation/IOLTA	70,008			2,400				72,408
Interest receivable	11,240	4,607	1,985		99	10		17,941
Prepaid expenses	48,662	18,588		2,374				69,624
Total Current Assets	7,166,311	1,989,358	654,927	137,708	347,611	119,978	(351,082)	10,064,811
NONCURRENT ASSETS								
Vehicle, net	11,823							11,823
Property, building, and equipment, net				3,118,818				3,118,818
Total Noncurrent Assets	11,823			3,118,818				3,130,641
TOTAL ASSETS	\$ 7,178,134	\$ 1,989,358	\$ 654,927	\$ 3,256,526	\$ 347,611	\$ 119,978	\$ (351,082)	\$ 13,195,452
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Accounts payable	\$ 278,255	\$ 3,253	\$ 860	\$ 33,392	\$ 4	\$ 0	\$ 0	\$ 315,764
Interfund payable	128,667	221,555		860			(351,082)	0
Accrued expenses	253,785	60,484		91,445				405,714
Current maturities of bonds payable				125,000				125,000
Total Current Liabilities	660,707	285,292	860	250,697	4	0	(351,082)	846,478
OTHER LIABILITIES:								
Deferred revenue	12,146	2,220						14,366
Bonds payable, less current maturities				590,000				590,000
Total Other Liabilities	12,146	2,220		590,000				604,366
Total Liabilities	672,853	287,512	860	840,697	4	0	(351,082)	1,450,844
NET ASSETS:								
Designated for Sections	288,471							288,471
Designated for Lawyer's Assistance Program	39,317							39,317
Designated for Brief Insights	4,106							4,106
Designated for Computer Carryforward	30,788							30,788
Undesignated	6,142,599	1,701,846	654,067	2,415,829	347,607	119,978		11,381,926
Total Net Assets	6,505,281	1,701,846	654,067	2,415,829	347,607	119,978	0	11,744,608
TOTAL LIABILITIES AND NET ASSETS	\$ 7,178,134	\$ 1,989,358	\$ 654,927	\$ 3,256,526	\$ 347,611	\$ 119,978	\$ (351,082)	\$ 13,195,452

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KENTUCKY BAR ASSOCIATION
COMBINING STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS	General Fund	Continuing Legal Education Fund	Client Security Fund	Bar Center Headquarters Trustees Fund	Bar Center Headquarters Fund	Donated Legal Services Fund	Interfund Eliminations	Total
CURRENT ASSETS:								
Cash	\$ 809,115	\$ 56,527	\$ 2,571	\$ 21,631	\$ 18,957	\$ 32,493		\$ 941,294
Certificate of Deposit	501,456					60,180		561,636
Investments	4,608,876	1,824,674	592,275		412,811			7,438,636
Accounts receivable	38,882	53,730						92,612
Interfund receivable	255,209						(255,209)	0
Due from Bar Foundation/IOLTA	65,204			2,400				67,604
Interest receivable	5,193	1,005	934		7	10		7,149
Prepaid expenses	71,842	17,591		1,160				90,593
Total Current Assets	6,355,777	1,953,527	595,780	25,191	431,775	92,683	(255,209)	9,199,524
NONCURRENT ASSETS								
Vehicle, net	17,498							17,498
Property, building, and equipment, net				3,018,170				3,018,170
Total Noncurrent Assets	17,498	0	0	3,018,170	0	0	0	3,035,668
TOTAL ASSETS	\$ 6,373,275	\$ 1,953,527	\$ 595,780	\$ 3,043,361	\$ 431,775	\$ 92,683	\$ (255,209)	\$ 12,235,192
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Accounts payable	\$ 241,137	\$ 4,791	\$ 0	\$ 25,233	\$ 0	\$ 0	\$ 0	\$ 271,161
Interfund payable		222,520	20,285	12,404			(255,209)	0
Accrued expenses	253,050	61,538	1,500	3,258				319,346
Current maturities of bonds payable				120,000				120,000
Total Current Liabilities	494,187	288,849	21,785	160,895	0	0	(255,209)	710,507
OTHER LIABILITIES:								
Deferred revenue	20,524	2,940						23,464
Bonds payable, less current maturities				715,000				715,000
Total Other Liabilities	20,524	2,940	0	715,000	0	0	0	738,464
Total Liabilities	514,711	291,789	21,785	875,895	0	0	(255,209)	1,448,971
NET ASSETS:								
Designated for Sections	295,448							295,448
Designated for Lawyer's Assistance Program	75,687							75,687
Designated for Brief Insights	4,412							4,412
Designated for Computer Carryforward	150,000							150,000
Undesignated	5,333,017	1,661,738	573,995	2,167,466	431,775	92,683		10,260,674
Total Net Assets	5,858,564	1,661,738	573,995	2,167,466	431,775	92,683	0	10,786,221
TOTAL LIABILITIES AND NET ASSETS	\$ 6,373,275	\$ 1,953,527	\$ 595,780	\$ 3,043,361	\$ 431,775	\$ 92,683	\$ (255,209)	\$ 12,235,192

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KENTUCKY BAR ASSOCIATION
COMBINING STATEMENT OF ACTIVITIES
For the year ended June 30, 2015

	General Fund	Continuing		Client Security Fund	Bar Center		Bar Center Trustees Fund	Bar Center		Donated Legal Services Fund	Total
		Legal Education Fund	Legal Fund		Headquarters	Services		Fund	Fund		
UNRESTRICTED NET ASSETS											
REVENUE AND SUPPORT:											
Membership dues	\$	3,484,052	\$	776,247	\$	117,921		\$	324,311	\$	27,175
Other dues		176,468									4,729,706
Investment income/realized gain(loss)		672,499		147,766		124,302	\$	2	92	120	176,468
Sections income		153,614									944,781
Reimbursement of costs		97,277									153,614
Attorney Advertising Commission		115,491									97,277
Pro Hac Vice		202,508									115,491
Publications/Communications		83,260									202,508
Conventions and Conferences		477,503									83,260
Rent of building		(577,129)		(102,726)		(107,058)		9,600	(264)		477,503
Net change in the fair value of investments		69,991		491,017		19,994					9,600
Other support and revenue		4,955,534		1,312,304		155,159		9,602	324,139	27,295	(787,177)
Total Support and Revenue											581,002
											6,784,033
EXPENSES:											
Program Services:											
Sections		160,591									160,591
Board of Governors, Officers, Committees		121,970									121,970
Disciplinary/Unauthorized practice		1,688,514									1,688,514
Disciplinary Clerk's Office		100,880									100,880
Publications/Communications		295,739									295,739
Conventions and Conferences		383,231									383,231
Attorney Advertising Commission		91,915									91,915
Lawyers Assistance Program		205,358									205,358
Continuing Legal Education			1,050,641								1,050,641
Client Security					27,536						27,536
Bar Center								280,509	6,237		286,746
Donated Legal Services										0	0
Total Program Services		3,048,198		1,050,641		27,536		280,509	6,237	0	4,413,121
Supporting Services:											
Management and General		1,412,525									1,412,525
Total Expenses		4,460,723		1,050,641		27,536		280,509	6,237	0	5,825,646
INCREASE (DECREASE) IN NET ASSETS		494,811		261,663		127,623		(270,907)	317,902	27,295	958,387
NET ASSETS AT BEGINNING OF YEAR		5,858,564		1,661,738		573,995		2,167,466	431,775	92,683	10,786,221
TRANSFERS IN (OUT)		151,906		(221,555)		(47,551)		519,270	(402,070)		0
NET ASSETS AS OF JUNE 30, 2015		6,505,281		1,701,846		654,067		2,415,829	347,607	119,978	11,744,608

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KENTUCKY BAR ASSOCIATION
COMBINING STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

	<u>General Fund</u>	<u>Continuing Legal Education Fund</u>	<u>Client Security Fund</u>	<u>Bar Center Headquarters Trustees Fund</u>	<u>Bar Center Headquarters Fund</u>	<u>Donated Legal Services Fund</u>	<u>Total</u>
UNRESTRICTED NET ASSETS							
REVENUE AND SUPPORT:							
Membership dues	\$ 3,428,913	\$ 764,711	\$ 116,295	\$ 0	\$ 319,518	\$ 26,631	4,656,068
Other dues	176,041						176,041
Investment income/realized gain(loss)	225,584	43,423	48,431	2	38,380	190	356,010
Sections income	155,500						155,500
Reimbursement of costs	69,585						69,585
Attorney Advertising Commission	119,375						119,375
Pro Hac Vice	235,170						235,170
Publications/Communications	79,748						79,748
Conventions and Conferences	444,016						444,016
Rent of building				9,600			9,600
Net change in the fair value of investments	185,115	36,345	34,575		3,494		259,529
Other support and revenue	128,100	512,140	6,303	13,823		25	660,391
Total Support and Revenue	5,247,147	1,356,619	205,604	23,425	361,392	26,846	7,221,033

EXPENSES:

Program Services:							
Sections	142,144						142,144
Board of Governors, Officers, Committees	111,345						111,345
Disciplinary/Unauthorized practice	1,569,358						1,569,358
Disciplinary Clerk's Office	105,500						105,500
Publications/Communications	281,760						281,760
Conventions and Conferences	408,079						408,079
Attorney Advertising Commission	82,787						82,787
Lawyers Assistance Program	185,649						185,649
Continuing Legal Education		1,022,079					1,022,079
Client Security			174,516				174,516
Bar Center				330,709	7,724		338,433
Donated Legal Services						354	354
Total Program Services	2,886,622	1,022,079	174,516	330,709	7,724	354	4,422,004
Supporting Services:							
Management and General	1,333,225						1,333,225
Total Expenses	4,219,847	1,022,079	174,516	330,709	7,724	354	5,755,229
INCREASE (DECREASE) IN NET ASSETS	<u>1,027,300</u>	<u>334,540</u>	<u>31,088</u>	<u>(307,284)</u>	<u>353,668</u>	<u>26,492</u>	<u>1,465,804</u>
NET ASSETS AT BEGINNING OF YEAR	5,048,559	1,587,444	603,762	1,600,905	413,556	66,191	9,320,417
TRANSFERS IN (OUT)	(217,295)	(260,246)	(60,855)	873,845	(335,449)		0
NET ASSETS AS OF JUNE 30, 2014	<u>\$ 5,858,564</u>	<u>\$ 1,661,738</u>	<u>\$ 573,995</u>	<u>\$ 2,167,466</u>	<u>\$ 431,775</u>	<u>\$ 92,683</u>	<u>\$ 10,786,221</u>

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KENTUCKY BAR ASSOCIATION
SCHEDULE OF FUNCTIONAL EXPENSES
For the fiscal year ended June 30, 2015

	Management and General	Sections	Board of Governors, Officers, and Committees	Disciplinary and Unauthorized Practices	Disciplinary Clerk's Office	Publications	Conventions	Advertising Commission	Lawyers Assistance Program	Continuing Legal Education	Client Security	Bar Center	Donated Legal Services	Total
Salaries	\$ 606,597	\$ 0	\$ 0	\$ 1,031,145	\$ 63,599	\$ 99,244	\$ 0	\$ 46,151	\$ 108,505	\$ 431,059	\$ 0	\$ 0	\$ 0	\$ 2,386,300
Payroll taxes	48,116			79,856	5,511	7,572		4,960	8,541	34,692				189,248
Retirement	225,284			394,389	19,254	36,807		23,773	42,080	159,620				901,207
Benefits	65,692			123,661	2,197	16,329		10,012	15,107	67,387				300,385
Accounting fees	17,677									688				18,365
Legal fees	46,253													46,253
Professional fees	7,043	8,875		9,475		3,072	20,636	3,015	1,063	1,940	225			55,344
Supplies	22,538	900	5,077	10,690	1,031	660	44,685	657	1,499	15,784	503	3,524		107,548
Telephone	9,327	552	423	699		271	1,533	157	1,002	2,917	24			16,905
Postage	13,886	399	844	4,357	8,657	33,295	12,948	677	271	9,629	283			85,246
Utilities												40,968		40,968
Equipment/computer expense	82,886	2,100								7,176				92,162
Printing	2,323	1,549	679	1,449	373	91,065	9,916	215	582	52,974	59			161,184
Travel and lodging	22,126	25,059	70,144	22,474	149	3,444	43,612	1,711	15,171	46,649	1,433	173		252,145
Conference, convention, & meeting expense	3,807	7,941	3,472	6,370		570	27,085		2,559	80,931				132,735
Interest												41,750		41,750
Depreciation	5,675											127,427		133,102
Bank/investment fees	16,794						7,596			4,946	2,495	793		32,624
Stipends	8,000													8,000
Meals & entertainment	22,107	31,316	39,246	3,848	109	418	109,049	179	7,498	43,271	464			257,505
Library/research	110,557													110,557
Maintenance/repairs	235									235		48,930		49,400
Audio visual expense							59,360			78,429				137,789
Contributions, sponsors, & grants		47,773				1,000								48,773
Insurance	60,380									1,289		17,181		78,850
Speakers						39,265								39,265
Teleseminars/special program														0
Payment on claims											22,050			22,050
Contribution in lieu of taxes												6,000		6,000
Unrelated business tax						858								858
Other	13,000	33,588												46,588
Miscellaneous	2,223	539	2,085	100		1,134	7,546	408	1,480	11,025				26,540
Total	\$ 1,412,526	\$ 160,591	\$ 121,970	\$ 1,688,513	\$ 100,880	\$ 295,739	\$ 383,231	\$ 91,915	\$ 205,358	\$ 1,050,641	\$ 27,536	\$ 286,746	\$ 0	\$ 5,825,646

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KENTUCKY BAR ASSOCIATION
SCHEDULE OF FUNCTIONAL EXPENSES
For the fiscal year ended June 30, 2014

	General and Administrative	Sections	Board of Governors, Officers, and Committees	Disciplinary and Unauthorized Practices	Disciplinary Clerk's Office	Publications	Conventions	Advertising Commission	Lawyers Assistance Program	Continuing Legal Education	Client Security	Bar Center	Donated Legal Services	Total
Salaries	\$ 583,993	\$ 0	\$ 0	\$ 1,027,500	\$ 68,364	\$ 100,373	\$ 0	\$ 44,519	\$ 102,057	\$ 451,040	\$ 0	\$ 0	\$ 0	\$ 2,377,846
Payroll taxes	46,960			78,897	5,812	7,689		4,855	8,024	35,990				188,227
Retirement	157,419			271,592	15,113	26,230		16,244	27,494	118,112				632,204
Benefits	60,817			132,328	3,615	12,155		9,801	14,436	71,362				304,514
Accounting fees	18,390									737				19,127
Legal fees	41,049													41,049
Professional fees	45,622	9,275	325	9,341		3,131	5,459	3,598	1,796	1,585	150			80,282
Supplies	26,650	225	3,518	12,096	1,608	238	41,046	891	1,244	18,225	238	4,491		110,470
Telephone	9,358	447	321			416	973	163	1,096	1,950	9			14,733
Postage	15,404	669	653	5,192	10,359	30,852	13,786	596	160	10,665	785	9		89,130
Utilities												42,759		42,759
Equipment/computer expense	65,779	2,100								7,145				75,024
Printing	1,782	258	1,515	1,293	225	92,470	12,046	112	1,458	50,855	27			162,041
Travel and lodging	11,193	32,573	65,207	21,820	399	4,826	43,899	1,655	17,480	46,236	2,241	188		247,717
Conference, convention, & meeting expense	4,678	3,777	4,519	5,930		275	44,490		2,260	74,721				140,650
Interest												68,958		68,958
Depreciation	5,675											129,044		134,719
Bank/investment fees	18,753						6,588			5,483	2,956	2,305		36,085
Stipends	8,000													8,000
Meals & entertainment	20,000	40,154	32,237	3,329	5	648	102,695	353	6,175	35,501	476	110	354	242,037
Library/research	122,272													122,272
Maintenance/repairs	579									527		67,389		68,495
Audio visual expense		1,738					42,685			81,226				125,649
Contributions, sponsors, & grants	1,075	13,501				1,300								15,876
Insurance	61,503									1,203		16,856		79,562
Speakers							88,000							88,000
Payment on claims											167,634			167,634
Contribution in lieu of taxes												6,000		6,000
Unrelated business tax						225								225
Other	5,000	37,099												42,099
Miscellaneous	1,274	328	3,050	40		932	6,412		1,969	9,516		324		23,845
Total	\$ 1,333,225	\$ 142,144	\$ 111,345	\$ 1,569,358	\$ 105,500	\$ 281,760	\$ 408,079	\$ 82,787	\$ 185,649	\$ 1,022,079	\$ 174,516	\$ 338,433	\$ 354	\$ 5,755,229

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