

**KENTUCKY LEAGUE OF CITIES, INC. AND
SUBSIDIARIES**

Consolidated Financial Statements

*Years Ended June 30, 2013 and 2012
with Report of Independent Auditors*

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Report of Independent Auditors

Board of Directors
Kentucky League of Cities, Inc. and Subsidiaries
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Kentucky League of Cities, Inc. and Subsidiaries (collectively, KLC) which comprise the consolidated statements of net position as of June 30, 2013 and 2012, and the related consolidated statements of revenues, expenses and changes in net position 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 consolidated financial statements in accordance with the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Board of Directors
Kentucky League of Cities, Inc. and Subsidiaries
Report of Independent Auditors, continued

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kentucky League of Cities, Inc. and Subsidiaries as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise KLC's basic financial statements. The consolidating schedules on pages 25 - 30 are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Board of Directors
Kentucky League of Cities, Inc. and Subsidiaries
Report of Independent Auditors, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013 on our consideration of KLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KLC's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

September 23, 2013
Lexington, Kentucky

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis (*Unaudited*)

Our discussion and analysis of the Kentucky League of Cities, Inc. and Subsidiaries (KLC or the Organization) provides an overview of the Organization's financial activity for the fiscal year ended June 30, 2013. It should be read in conjunction with the consolidated financial statements, which begin on page 7.

Financial Highlights

- Operating revenues in total decreased approximately \$334,000 below last fiscal year. Administrative fees decreased approximately \$225,000. Commission revenue decreased approximately \$106,000. Conference, training and other revenues remained relatively consistent.
- Operating expenses increased approximately \$283,000 primarily due to legislative and technology services.
- Earnings from investments increased approximately \$475,000 above the prior year, primarily due to realized and unrealized gains on investments.

Using this Annual Report

This report consists of a series of financial statements. The consolidated statements of net position on pages 7 provide information about the Organization as a whole.

Statements of Net Position

Table 1 shows all of the assets and liabilities of the Organization and is presented on the accrual basis. The total net position increased by \$397,050 as compared to an increase of \$514,737 in the prior year.

Table 1
Net Position

	<u>2013</u>	<u>2012</u>
Current assets	\$ 8,871,385	\$ 14,308,328
Capital and other assets	<u>7,488,163</u>	<u>7,652,065</u>
Total assets	16,359,548	21,960,393
Current liabilities	2,148,414	7,874,940
Long-term liabilities	<u>3,383,754</u>	<u>3,655,123</u>
Total net position	<u>\$ 10,827,380</u>	<u>\$ 10,430,330</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis (Unaudited), continued

Statements of Revenues, Expenses and Changes in Net Position

Table 2 shows all the revenues and expenses of the Organization and is also presented on the accrual basis. The administrative fees received for providing staffing and overhead to the KLC related entities (KMFC, KLCIS, KLCUCRT, KLCWCT, KSBIT) decreased approximately \$225,000, due to a decrease in the KMFC administrative fees, which is based on the outstanding balance of the bonds, see Note 8 and a decrease in KSBIT administrative fees. Operating expenses were reallocated according to services provided through Legislative, Insurance, or other Member Services. Total operating expenses increased approximately \$283,000 over the prior year primarily due to increases in legislative services, administrative expenses, and information technology.

Table 2
Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Administrative fees	\$ 7,196,659	\$ 7,421,522
Commissions	2,152,535	2,258,622
Member dues	463,335	454,774
Member meeting and training income	287,794	296,012
Premium finance revenue	153,452	153,456
Other income	207,023	225,874
Publication income	<u>21,950</u>	<u>6,840</u>
Total operating revenues	10,482,748	10,817,100
Operating expenses:		
Administrative and general	(4,821,390)	(4,502,301)
Legislative services	(1,410,514)	(1,281,974)
Member financial services	(215,508)	(216,042)
Member insurance services	(5,025,835)	(5,208,792)
Member meeting and training services	<u>(180,009)</u>	<u>(161,004)</u>
Total operating expenses	(11,653,256)	(11,370,113)
Nonoperating revenues	<u>1,567,558</u>	<u>1,067,750</u>
Change in net position	<u>\$ 397,050</u>	<u>\$ 514,737</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis (*Unaudited*), continued

Description of Current and Expected Conditions

Effective January 1, 2010, the Kentucky School Board Insurance Trust (KSBIT) entered into an administrative agreement with KLC for KLC to provide day to day management of the business affairs and provide necessary office, facilities, staff, and administrative services for the Liability/Property and Workers' Compensation Trusts. KLC shall be reimbursed for all direct costs plus a percentage of premiums. Fiscal year 2011 was the first full fiscal year for the administration of this program. During the year ended June 30, 2013, the agreement was modified at the direction of the Kentucky Department of Insurance to discontinue the administrative service fee due to KLC because of KSBIT's net position.

The KLC Executive Board hired Jonathan Steiner as KLC Executive Director effective November 2010, Doug Goforth as Chief Insurance Services Officer effective January 2011 and Dawn Harlow as Chief Financial Officer effective April 2012.

The management of KLC is not aware of any other significant changes in conditions that would have a significant effect on the financial position or results of operations of the Organization in the near future.

Contacting KLC's Financial Management

This financial report is designed to provide a general overview of KLC's finances and to show KLC's accountability to its members. If you have questions about this report or need additional information, contact KLC's office at 100 E. Vine St., Lexington, KY 40507.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidated Statements of Net Position

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,913,345	\$ 2,644,324
Investments	4,221,669	5,294,393
Accounts receivable	434,582	374,577
Premiums receivable	81,701	127,806
Prepaid expenses and other assets	691,028	285,583
Due from related parties	<u>529,060</u>	<u>5,581,645</u>
Total current assets	8,871,385	14,308,328
Fixed assets:		
Land	674,175	674,175
Buildings	6,427,420	6,427,420
Furniture and fixtures	2,644,162	2,703,525
Improvements	<u>4,907,391</u>	<u>4,417,953</u>
	14,653,148	14,223,073
Less accumulated depreciation	<u>(7,164,985)</u>	<u>(6,571,008)</u>
Total fixed assets	<u>7,488,163</u>	<u>7,652,065</u>
Total assets	<u>16,359,548</u>	<u>21,960,393</u>
Liabilities		
Current liabilities:		
Accounts payable	230,647	270,527
Accrued liabilities	1,057,937	894,799
Unearned revenue	560,515	577,089
Due to related parties	27,945	5,868,927
Current maturities of bond payable	<u>271,370</u>	<u>263,598</u>
Total current liabilities	2,148,414	7,874,940
Bond payable, net of current maturities	<u>3,383,754</u>	<u>3,655,123</u>
Total liabilities	<u>5,532,168</u>	<u>11,530,063</u>
Net Position		
Invested in fixed assets, net of related debt	3,833,039	3,733,344
Unrestricted	<u>6,994,341</u>	<u>6,696,986</u>
Total net position	<u>\$ 10,827,380</u>	<u>\$ 10,430,330</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidated Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenue:		
Administrative fee - KLCIS	\$ 3,541,689	\$ 3,540,357
Administrative fee - KLCWCT	1,756,178	1,795,061
Administrative fee - KMFC	647,645	761,455
Administrative fee - KLCUCRT	106,156	106,362
Administrative fee - KSBIT	1,144,991	1,218,287
Commissions	2,152,535	2,258,622
Member dues	463,335	454,774
Member meeting and training income	287,794	296,012
Premium finance revenue	153,452	153,456
Other	207,023	225,874
Publication income	<u>21,950</u>	<u>6,840</u>
Total operating revenue	10,482,748	10,817,100
Operating expenses	<u>11,653,256</u>	<u>11,370,113</u>
Operating loss	(1,170,508)	(553,013)
Nonoperating revenue (expenses):		
Interest and investment income	643,639	168,657
Interest expense	(81,375)	(87,087)
Gain (loss) on sale of fixed assets	7,760	(1,602)
Net rental income	<u>997,534</u>	<u>987,782</u>
Total nonoperating revenue	<u>1,567,558</u>	<u>1,067,750</u>
Change in net position	397,050	514,737
Net position, beginning of year	<u>10,430,330</u>	<u>9,915,593</u>
Net position, end of year	<u>\$ 10,827,380</u>	<u>\$ 10,430,330</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from members and affiliates	\$ 10,439,816	\$ 11,042,106
Cash paid to suppliers and employees	<u>(11,248,132)</u>	<u>(10,465,749)</u>
Net cash (used in) provided by operating activities	(808,316)	576,357
Cash flows from noncapital financing activities:		
Payments to related parties	(788,397)	(290,443)
Proceeds from draws on line of credit	-	6,000,000
Payments on line of credit	<u>-</u>	<u>(6,000,000)</u>
Net cash used in noncapital financing activities	(788,397)	(290,443)
Cash flows from capital and related financing activities:		
Capital expenditures	(510,951)	(141,051)
Proceeds from sale of fixed assets	7,760	-
Principal payments on bond payable	(263,597)	(255,905)
Interest paid	<u>(81,375)</u>	<u>(87,087)</u>
Net cash used in capital and related financing activities	(848,163)	(484,043)
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	2,558,823	1,503,870
Interest and income on investments	493,738	210,721
Purchase of investments	(1,336,198)	(1,536,437)
Proceeds from rental activities	<u>997,534</u>	<u>987,782</u>
Net cash provided by investing activities	<u>2,713,897</u>	<u>1,165,936</u>
Net increase in cash and cash equivalents	269,021	967,807
Cash and cash equivalents, beginning of year	<u>2,644,324</u>	<u>1,676,517</u>
Cash and cash equivalents, end of year	<u>\$ 2,913,345</u>	<u>\$ 2,644,324</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

Years ended June 30, 2013 and 2012

Reconciliation of operating loss to net cash (used in) provided by operating activities:

Operating loss	\$ (1,170,508)	\$ (553,013)
Adjustments:		
Depreciation and amortization	674,853	724,433
Provision for bad debts	75,257	-
Increase (decrease) in cash due to changes in:		
Accounts receivable	(135,262)	217,722
Premiums receivable	46,105	(51,437)
Prepaid expenses and other assets	(405,445)	191,408
Accounts payable	(39,880)	130,277
Accrued liabilities	163,138	(141,754)
Unearned revenue	<u>(16,574)</u>	<u>58,721</u>
Net cash (used in) provided by operating activities	\$ <u>(808,316)</u>	\$ <u>576,357</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

1. Nature of Organization and Operations

The Kentucky League of Cities, Inc. and Subsidiaries (KLC) is an incorporated association of cities whose purpose is to provide legislative, financial, insurance, and legal assistance to its members. This is primarily accomplished through lobbying, publications and training seminars. KLC publishes a monthly newsletter and a weekly bulletin on the status of legislation. KLC's revenues are substantially comprised of fees earned for administration of entities related to KLC and member dues. Member dues are based on the members' respective populations.

Kentucky League of Cities Insurance Agency (KLCIA) was incorporated on December 27, 1995 by its sole stockholder, KLC. KLCIA was organized to transact business as an insurance agency. KLCIA sells health, life, and bonding insurance to municipalities in the Commonwealth of Kentucky and also markets insurance offered by other KLC related entities.

Kentucky League of Cities Premium Finance Company (KLCPFC) was incorporated on March 26, 2003 by its sole stockholder, KLC. KLCPFC was organized to finance insurance premiums for member cities. See also Note 7.

The consolidated financial statements of KLC include the accounts of KLC, KLCIA, and KLCPFC. All significant intercompany balances and transactions have been eliminated upon consolidation.

The following entities are KLC related entities:

- Kentucky Municipal Finance Corporation (KMFC)
- Kentucky League of Cities Insurance Services (KLCIS)
- Kentucky League of Cities Unemployment Compensation Reimbursement Trust (KLCUCRT)
- Kentucky League of Cities Workers Compensation Trust (KLCWCT)
- Kentucky School Boards Insurance Trust Workers Compensation Fund (KSBITWCF)
- Kentucky School Boards Insurance Trust Property and Liability Fund (KSBITPLF)

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by KLC in the preparation of its consolidated financial statements.

Change in Accounting Principle

For 2013, KLC implemented Governmental Accounting Standard Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Change in Accounting Principle, continued

GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in KLC's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

Basis of Presentation

KLC presents its financial statements in conformity with GAAP as applied to government units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As a proprietary activity, KLC has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Therefore, KLC follows GASB pronouncements and all Financial Accounting Standards Board and predecessor boards' pronouncements except those that conflict with or contradict GASB pronouncements.

Operating revenues are those revenues that are generated from the primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

KLC has a concentration of credit risk in that it periodically maintains bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation (FDIC). Cash equivalents include investments in a money market fund that are not FDIC insured.

Investments

Investment securities consist of U.S. government agency equity securities and mutual funds consisting of governmental securities and debt and equity securities. Investments are stated at fair value based, generally, on quoted market prices.

Realized gains and losses on investments are calculated as the difference between the proceeds of the sale and the original cost of the investments sold. This calculation is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that were held in prior years and sold in the current year were included as a net change in the fair value of investments as reported in the prior year.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Fixed Assets

Fixed assets consist of land, buildings, furniture and equipment and building improvements and are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	39 years
Furniture and fixtures	2-15 years
Improvements	15-20 years

When properties are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the account with any resulting gain or loss reflected in income.

Income Taxes

The Internal Revenue Service (IRS) has ruled that the income of KLC is excludable from gross income and, therefore, exempt from taxation pursuant to Internal Revenue Code (IRC) Section 115, which pertains to instrumentalities of state and local governments.

Unearned Revenue

Unearned revenue consists of KLC members' dues and premiums financed through KLCPFPC. Members' annual dues are billed in advance throughout the year. These dues are deferred and subsequently recognized on a pro-rata basis. Total unearned revenue related to members' dues was \$230,333 and \$301,533 as of June 30, 2013 and 2012, respectively. KLCPFPC finances insurance premiums for members of KLCIS throughout the year. Those premium amounts that are received in advance of the policy period are classified as advanced (unearned) revenue until earned. Total unearned premiums as of June 30, 2013 and 2012 were \$89,323 and \$67,139, respectively. Unearned revenue also includes convention, administrative fees, advertising fees and rent received in advance. Total other unearned revenue for KLC as of June 30, 2013 and 2012 was \$233,730 and \$196,743, respectively.

Additionally, KLCIA has received commissions from certain insurance carriers for advance premiums sold to member cities. These commissions are earned over the life of the premium policy period. Total unearned revenue for KLCIA as of June 30, 2013 and 2012 was \$7,129 and \$11,674, respectively.

Subsequent Events

KLC's management evaluated the period from July 1, 2012 to September 23, 2013 (the date the financial statements were ready to be issued) for items requiring recognition or disclosure in the financial statements.

As discussed in Note 4, in July 2013, KLC purchased a parking lot via a \$960,000 note payable.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Governmental employers participating in a cost-sharing plan will also be required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. All governments participating in the defined benefit pension plan would also have the following in their note disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate
- Net pension assets and liabilities

The provisions of this statement are effective for fiscal years beginning after June 15, 2014.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

3. Deposits and Investments

Deposits and investments held by KLC as of June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	\$ 2,907,290	\$ 2,341,836
Money market mutual funds	<u>6,055</u>	<u>302,488</u>
	2,913,345	2,644,324
Investments classified as investment securities:		
U.S. government agencies and municipal obligations	1,300,000	1,929,963
Corporate and foreign bonds	469,832	551,311
Equity mutual funds	264,716	447,326
Equity securities	<u>2,187,120</u>	<u>2,365,793</u>
	<u>4,221,668</u>	<u>5,294,393</u>
Total deposits and investments	\$ <u>7,135,013</u>	\$ <u>7,938,717</u>

Interest and investment income is comprised of the following for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 96,712	\$ 109,724
Realized gains on sales of securities	397,026	100,997
Unrealized gains (losses) on securities	<u>149,901</u>	<u>(42,064)</u>
	<u>\$ 643,639</u>	<u>\$ 168,657</u>

Interest Rate Risk

Interest rate risk is the risk that interest rates will change and cause a decrease in the value of an entity's investments. KLC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that issuers of securities owned by an entity will default or that other parties that owe the entity money will not pay. KLC minimizes these risks by adhering to a conservative investment strategy, by utilizing sound financial advice of reputable investment advisors, by maintaining credit and collection policies, and by providing an allowance for any amounts deemed uncollectible.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

3. Deposits and Investments, continued

Credit Risk, continued

As of June 30, 2013, KLC was invested in several U.S. government agency bonds, state and local municipal bonds, corporate and foreign bonds and bond mutual funds which have the following ratings as of June 30, 2013:

AA	\$	108,017
A		307,626
Below A		54,189
Not rated or other		<u>1,300,000</u>
	\$	<u>1,769,832</u>

Concentration of Credit Risk

KLC's investment policy limits investments in any single holding to no more than 5% of the market value of the account, except for bonds issued by the Kentucky Bond Corporation, up to an aggregate limit of \$2,000,000, as well as setting guidelines for the type and quality of investments. At June 30, 2013, there were no investments held by KLC that exceeded this limit. At June 30, 2012, KLC had one investment that exceeded the 5% limit, which was within the policy guidelines as it was a bond issued by the Kentucky Bond Corporation.

As of June 30, 2013, KLC had the following investment maturities:

	Investment Maturities (in years)		
	Less than one	One to five	Greater than five
U.S. government agencies and municipal obligations	\$ -	\$ -	\$ 1,300,000
Corporate and foreign bonds	<u>-</u>	<u>326,059</u>	<u>143,773</u>
	<u>\$ -</u>	<u>\$ 326,059</u>	<u>\$ 1,443,773</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

4. Long Term Debt

Bond Payable

On March 1, 2006, KLC issued an adjustable rate, taxable 2006 series bond in the amount of \$5,000,000. On December 1, 2009, this bond was refinanced by three 15-year variable rate bonds. Repayment on these bonds began January 1, 2011. The interest rate on the bonds as of June 30, 2013 and 2012 was 0.19% and 0.17%, respectively. The bonds are included in the bond pools that are administered by KLC (see Note 8). The bonds bear interest at variable rates based on the SIFMA municipal index. In order to secure the loan, KLC pledged the following as security for the loan repayment: all rental income derived from the building, \$2,000,000 of KLC's investments, and a negative lien pledge/covenant on the building. The following is a schedule of the required future principal payments in accordance with the refinancing agreement.

Year ending June 30,	
2014	\$ 271,370
2015	279,442
2016	287,640
2017	296,246
2018	305,002
Thereafter	<u>2,215,424</u>
	<u>\$ 3,655,124</u>

Note Payable

On July 10, 2013, subsequent to year end, KLC signed a promissory note with a non-related party financial institution for the purpose of purchasing a parking lot. The outstanding balance of the note, \$960,000, bears interest at 3.79% annually. The note requires monthly payments of \$7,026 through July 2028. The note is securitized by the parking lot.

5. Line of Credit

KLCPFC has a \$6,000,000 line of credit agreement with a non-related party financial institution. The line of credit carries a variable interest rate based on the 30-day LIBOR rate plus 2.2% and matures on June 30, 2014. KLC is a guarantor on the line of credit. No funds are drawn against the line as of June 30, 2013.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Employee Deferred Compensation Plan

Prior to April 1994, KLC offered its employees a deferred compensation plan created in accordance with IRC Section 457 in which KLC contributed 10% of each participant's annual salary. In April 1994, KLC created a plan in accordance with IRC Section 401(a) and ceased contributions to the 457 plan. The 457 plan remains as a strictly voluntary plan and all full-time employees are eligible to participate from the time of hire. Employees may contribute up to a maximum of \$17,500 per year. The 401(a) plan was available to all full-time employees who had completed one year of service. KLC made contributions to the 401(a) plan of 10% of each eligible participant's annual salary. KLC's previous contributions to the 457 plan are not available to participants until termination, retirement, death, or in the event of an unforeseeable emergency. At its June 20, 2000 meeting, to be effective September 1, 2000, the KLC Executive Board passed a resolution to permit its eligible, full-time employees to participate in the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan, established and maintained by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement benefits to plan members and beneficiaries. Employees hired prior to September 1, 2000 can participate in either the 401(a) plan or the CERS plan. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601. Employees hired after September 1, 2000 can only participate in the CERS plan.

Under the provisions of Kentucky Revised Statutes Section 61.645, the Board of Directors of the Kentucky Retirement Systems administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5%, if hired prior to September 1, 2008, or 6% if hired subsequent to September 1, 2008, of their annual covered compensation and KLC is required to contribute an actuarially determined rate. As of June 30, 2013, the rate is 19.55% (18.96% for 2012) of each employee's total covered compensation. The contribution requirements of plan members and KLC are established and may be amended by the Kentucky Retirement System's Board of Trustees. During the years ended June 30, 2013 and 2012, KLC contributed \$1,100,396 and \$1,040,859, respectively, to the retirement plan in effect.

7. Premium Financing Activities

As mentioned in Note 1 to the consolidated financial statements, KLCPFC was organized to finance insurance premiums for member cities that purchase property, liability and workers compensation insurance from KLCIS and KLCWCT (the Insurance Companies), respectively. KLCPFC enters into short-term financing agreements with member cities who wish to finance their premiums over a period of time. The length of the financing contracts range from three to nine months and the finance charges range from 1.25% to 4.99% depending on the dollar amount of the premium financed. KLCPFC also requires a 20% down payment on all amounts financed.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

7. Premium Financing Activities, continued

When a member signs a financing contract, KLC PFC recognizes a receivable from the member city and a payable to the Insurance Companies. Premium amounts financed are transferred on a monthly basis to the Insurance Companies. Should a member be cancelled or withdraw from the insurance plans, KLC PFC would receive the unearned amount of the premium from the Insurance Companies. KLC PFC recognizes premium finance revenue as earned based upon the terms of the contract. Total premium finance income for June 30, 2013 and 2012 was \$153,452 and \$153,456, respectively. Total premiums receivable as of June 30, 2013 and 2012 were \$81,701 and \$127,806, respectively. Total premiums due from (owed to) the Insurance Companies as of June 30, 2013 and 2012 were \$508,835 and \$(330,875), respectively, and are included within the due to/from related parties on the consolidated balance sheets.

8. Administration Fees

KLC acts as administrator for several sponsored insurance funds. KLCUCRT provides unemployment compensation coverage to KLC members and pays KLC an administration fee of \$6.00 per average full-time employee covered, less expenses allocated to the KLCUCRT program. KLCIS operates various self-insurance programs for participating municipalities and pays KLC an administration fee based on a percentage of earned premiums. In 1994, KLC instituted KLCWCT for the purpose of creating and operating various self-insurance, insurance and investment trusts. KLC provides substantially all operational, management and administrative services under an administrative agreement with KLCWCT. KLCWCT pays fees to KLC based on a percentage of earned premiums.

KLC provides substantially all of the operational, management and administrative services for KSBITWCF and KSBITPLF in exchange for a reimbursement of administrative costs. During the year ended June 30, 2013, the agreement was modified at the direction of the Kentucky Department of Insurance to discontinue the management fee due to KLC because of KSBIT's net position.

KLCIA has also entered into a marketing agreement with KLCIS and KLCWCT which provides that KLCIS and KLCWCT pay a commission to KLCIA for insurance which KLCIA markets. Revenues generated during the years ended June 30, 2013 and 2012 were approximately \$1,120,534 and \$1,118,749, respectively.

In the mid 1990's KLC formed the Funding Trust to oversee future bond pools. Since that time, KLC, through various member cities, has issued approximately \$500 million to finance or refinance member city projects. As the administrator to the program, KLC receives an ongoing fee of 0.25% of the outstanding balance of loans made out of the program. In limited instances KLC receives an advance administrative fee instead of an ongoing administrative fee. Any up-front fees are recognized into revenue evenly over a 10-year period.

For the years ended June 30, 2013 and 2012, the Funding Trust issued approximately \$48.8 million and \$6.8 million, respectively, in bonds. The new bond pool structure is a dedicated bond pool instead of a blind bond pool with all administrative fees being earned in advance.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

9. Due From/To Related Parties

KLC reports amounts as being due from or due to related parties. Related parties are entities that are under common control with KLC, but which KLC does not own.

Related party receivables and payables included within KLC's consolidated balance sheets consist of the following as of June 30:

	<u>2013</u>	<u>2012</u>
KLCIS accounts receivable (payable)	\$ 26,185	\$ (5,868,927)
KLCWCT accounts receivable	502,875	4,584,261
KLCUCRT accounts (payable) receivable	<u>(27,945)</u>	<u>997,384</u>
Net due to related parties	<u>\$ 501,115</u>	<u>\$ (287,282)</u>
KSBIT - accounts receivable	<u>\$ 193,840</u>	<u>\$ 106,079</u>
Included in accounts receivable	<u>\$ 193,840</u>	<u>\$ 106,079</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

10. Operating Expenses

Operating expenses for 2013 and 2012 by natural classification are as follows:

	<u>2013</u>	<u>2012</u>
Salaries	\$ 6,210,963	\$ 6,107,049
Retirement	1,100,396	1,040,859
Employee benefits	791,371	769,348
Depreciation	680,649	724,433
Professional services	553,432	608,980
Payroll taxes	435,891	417,466
Other expenses	558,030	457,475
Building management	353,468	353,307
Meetings	280,373	229,282
Legislative services	131,388	121,881
Travel	110,924	96,715
Telephones	103,874	109,544
Program and development	78,832	70,302
Office supplies	64,345	54,506
Dues	58,245	77,688
Publications	50,084	48,147
KLCPFC finance expenses	47,803	35,921
Postage	38,588	43,563
Bond administration	<u>4,600</u>	<u>3,647</u>
	<u>\$ 11,653,256</u>	<u>\$ 11,370,113</u>

Operating expenses for 2013 and 2012 by functional classification are as follows:

	<u>2013</u>	<u>2012</u>
Administrative and general	\$ 4,821,390	\$ 4,502,301
Member insurance services	5,025,835	5,208,792
Legislative services	1,410,514	1,281,974
Member financial services	215,508	216,042
Member meeting and training services	<u>180,009</u>	<u>161,004</u>
	<u>\$ 11,653,256</u>	<u>\$ 11,370,113</u>

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors
Kentucky League of Cities, Inc. and Subsidiaries
Lexington, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Kentucky League of Cities, Inc. and Subsidiaries (KLC) as of and for the year ended June 30, 2013, and the related notes to the consolidated financial statements, which collectively comprise KLC's basic consolidated financial statements, and have issued our report thereon dated September 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered KLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of KLC's internal control. Accordingly, we do not express an opinion on the effectiveness of KLC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KLC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dotson Allen Ford, PLLC

September 23, 2013
Lexington, Kentucky

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Schedule of Findings and Responses

Year ended June 30, 2013

Section I - Summary of Auditors' Results

- a. The type of report issued on the financial statements: **Unqualified opinion**
- b. Material weaknesses identified in the internal control over financial reporting: **No**
- c. Significant deficiencies identified in the internal control over financial reporting: **None reported**
- d. Non-compliance which is material to the financial statements: **No**

Section II - Summary of Findings and Responses

We noted no findings during the course of the audit.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Net Position

June 30, 2013

Assets	<u>Kentucky League of Cities</u>	<u>Kentucky League of Cities Insurance Agency</u>	<u>Kentucky League of Cities Premium Finance Company</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
Current assets:					
Cash and cash equivalents	\$ 2,289,181	\$ -	\$ 624,164	\$ -	\$ 2,913,345
Investments	4,521,669	-	-	(300,000)	4,221,669
Accounts receivable	402,800	31,782	-	-	434,582
Premiums receivable	-	-	81,701	-	81,701
Prepaid expenses and other assets	663,251	22,315	5,462	-	691,028
Due from related parties	<u>529,060</u>	<u>301,041</u>	<u>1,331</u>	<u>(302,372)</u>	<u>529,060</u>
Total current assets	8,405,961	355,138	712,658	(602,372)	8,871,385
Fixed assets:					
Land	674,175	-	-	-	674,175
Buildings	6,427,420	-	-	-	6,427,420
Furniture and fixtures	2,603,535	19,227	21,400	-	2,644,162
Improvements	<u>4,907,391</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,907,391</u>
	14,612,521	19,227	21,400	-	14,653,148
Less accumulated depreciation	<u>(7,124,358)</u>	<u>(19,227)</u>	<u>(21,400)</u>	<u>-</u>	<u>(7,164,985)</u>
Total fixed assets	<u>7,488,163</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,488,163</u>
Total assets	<u>15,894,124</u>	<u>355,138</u>	<u>712,658</u>	<u>(602,372)</u>	<u>16,359,548</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Net Position, continued

June 30, 2013

	Kentucky League of Cities	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
Liabilities					
Current liabilities:					
Accounts payable	206,604	24,043	-	-	230,647
Accrued liabilities	1,048,872	1,065	8,000	-	1,057,937
Unearned revenue	464,063	7,129	89,323	-	560,515
Due to related parties	330,317	-	-	(302,372)	27,945
Current maturities of bond payable	<u>271,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>271,370</u>
Total current liabilities	2,321,226	32,237	97,323	(302,372)	2,148,414
Bond payable, net of current maturities	<u>3,383,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,383,754</u>
Total liabilities	5,704,980	32,237	97,323	(302,372)	5,532,168
Net Position					
Invested in fixed assets, net of related debt	3,833,039	-	-	-	3,833,039
Unrestricted	<u>6,356,105</u>	<u>322,901</u>	<u>615,335</u>	<u>(300,000)</u>	<u>6,994,341</u>
Total net position	<u>\$ 10,189,144</u>	<u>\$ 322,901</u>	<u>\$ 615,335</u>	<u>\$ (300,000)</u>	<u>\$ 10,827,380</u>

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Net Position

June 30, 2012

Assets	Kentucky League of Cities	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
Current assets:					
Cash and cash equivalents	\$ 1,731,676	\$ -	\$ 912,648	\$ -	\$ 2,644,324
Investments	5,594,393	-	-	(300,000)	5,294,393
Accounts receivable	328,896	45,681	-	-	374,577
Premiums receivable	-	-	127,806	-	127,806
Prepaid expenses and other assets	268,634	11,487	5,462	-	285,583
Due from related parties	<u>5,416,420</u>	<u>271,304</u>	<u>-</u>	<u>(106,079)</u>	<u>5,581,645</u>
Total current assets	13,340,019	328,472	1,045,916	(406,079)	14,308,328
Fixed assets:					
Land	674,175	-	-	-	674,175
Buildings	6,427,420	-	-	-	6,427,420
Furniture and fixtures	2,662,898	19,227	21,400	-	2,703,525
Improvements	<u>4,417,953</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,417,953</u>
	14,182,446	19,227	21,400	-	14,223,073
Less accumulated depreciation	<u>(6,530,381)</u>	<u>(19,227)</u>	<u>(21,400)</u>	<u>-</u>	<u>(6,571,008)</u>
Total fixed assets	<u>7,652,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,652,065</u>
Total assets	<u>20,992,084</u>	<u>328,472</u>	<u>1,045,916</u>	<u>(406,079)</u>	<u>21,960,393</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Net Position, continued

June 30, 2012

	<u>Kentucky League of Cities</u>	<u>Kentucky League of Cities Insurance Agency</u>	<u>Kentucky League of Cities Premium Finance Company</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
Liabilities					
Current liabilities:					
Accounts payable	251,718	13,767	5,042	-	270,527
Accrued liabilities	876,840	9,959	8,000	-	894,799
Unearned revenue	498,276	11,674	67,139	-	577,089
Due to related parties	5,644,131	-	330,875	(106,079)	5,868,927
Current maturities of bond payable	<u>263,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,598</u>
Total current liabilities	7,534,563	35,400	411,056	(106,079)	7,874,940
Bond payable, net of current maturities	<u>3,655,123</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,655,123</u>
Total liabilities	11,189,686	35,400	411,056	(106,079)	11,530,063
Net Position					
Invested in fixed assets, net of related debt	3,733,344	-	-	-	3,733,344
Unrestricted	<u>6,069,054</u>	<u>293,072</u>	<u>634,860</u>	<u>(300,000)</u>	<u>6,696,986</u>
Total net position	<u>\$ 9,802,398</u>	<u>\$ 293,072</u>	<u>\$ 634,860</u>	<u>\$ (300,000)</u>	<u>\$ 10,430,330</u>

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2013

	Kentucky League of Cities	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
Operating revenue:					
Administrative fee - KLCIS	\$ 3,541,689	\$ -	\$ -	\$ -	\$ 3,541,689
Administrative fee - KLCWCT	1,756,178	-	-	-	1,756,178
Administrative fee - KMFC	647,645	-	-	-	647,645
Administrative fee - KLCUCRT	106,156	-	-	-	106,156
Administrative fee - Financial Services	75,000	-	-	(75,000)	-
Administrative fee - KSBIT	995,000	149,991	-	-	1,144,991
Commissions	2,072,273	2,152,535	-	(2,072,273)	2,152,535
Member dues	463,335	-	-	-	463,335
Member meeting and training income	287,794	-	-	-	287,794
Premium finance income	-	-	153,452	-	153,452
Other	167,383	11,905	27,735	-	207,023
Publication income	<u>21,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,950</u>
Total operating revenue	<u>10,134,403</u>	<u>2,314,431</u>	<u>181,187</u>	<u>(2,147,273)</u>	<u>10,482,748</u>
Operating expenses	<u>11,315,003</u>	<u>2,284,698</u>	<u>200,828</u>	<u>(2,147,273)</u>	<u>11,653,256</u>
Operating (loss) income	(1,180,600)	29,733	(19,641)	-	(1,170,508)
Nonoperating revenue (expenses):					
Interest and investment income	643,427	96	116	-	643,639
Interest expense	(81,375)	-	-	-	(81,375)
Gain on sale of fixed assets	7,760	-	-	-	7,760
Net rental income	<u>997,534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>997,534</u>
Total nonoperating revenue	<u>1,567,346</u>	<u>96</u>	<u>116</u>	<u>-</u>	<u>1,567,558</u>
Change in net position	386,746	29,829	(19,525)	-	397,050
Net position, beginning of year	<u>9,802,398</u>	<u>293,072</u>	<u>634,860</u>	<u>(300,000)</u>	<u>10,430,330</u>
Net position, end of year	<u>\$ 10,189,144</u>	<u>\$ 322,901</u>	<u>\$ 615,335</u>	<u>\$ (300,000)</u>	<u>\$ 10,827,380</u>

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Revenues, Expenses and Changes in Net Position, continued

Year ended June 30, 2012

	Kentucky League of Cities	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
Operating revenue:					
Administrative fee - KLCIS	\$ 3,540,357	\$ -	\$ -	\$ -	\$ 3,540,357
Administrative fee - KLCWCT	1,795,061	-	-	-	1,795,061
Administrative fee - KMFC	746,605	14,850	-	-	761,455
Administrative fee - KLCUCRT	106,362	-	-	-	106,362
Administrative fee - Financial Services	90,000	-	-	(90,000)	-
Administrative fee - KSBIT	1,078,320	139,967	-	-	1,218,287
Commissions	2,158,698	2,258,622	-	(2,158,698)	2,258,622
Member dues	454,774	-	-	-	454,774
Member meeting and training income	296,012	-	-	-	296,012
Premium finance revenue	-	-	153,456	-	153,456
Other	143,240	60,517	22,117	-	225,874
Publication income	<u>6,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,840</u>
Total operating revenue	10,416,269	2,473,956	175,573	(2,248,698)	10,817,100
Operating expenses	<u>11,110,251</u>	<u>2,367,875</u>	<u>140,685</u>	<u>(2,248,698)</u>	<u>11,370,113</u>
Operating (loss) income	(693,982)	106,081	34,888	-	(553,013)
Nonoperating revenue (expenses):					
Interest and investment income	167,754	708	195	-	168,657
Interest expense	(87,087)	-	-	-	(87,087)
Loss on sale of fixed assets	(1,602)	-	-	-	(1,602)
Net rental income	<u>987,782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>987,782</u>
Total nonoperating revenue	<u>1,066,847</u>	<u>708</u>	<u>195</u>	<u>-</u>	<u>1,067,750</u>
Change in net position	372,865	106,789	35,083	-	514,737
Net position, beginning of year	<u>9,429,533</u>	<u>186,283</u>	<u>599,777</u>	<u>(300,000)</u>	<u>9,915,593</u>
Net position, end of year	<u>\$ 9,802,398</u>	<u>\$ 293,072</u>	<u>\$ 634,860</u>	<u>\$ (300,000)</u>	<u>\$ 10,430,330</u>

See accompanying notes and report of independent auditors.