

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

Consolidated Financial Statements

*Years Ended June 30, 2012 and 2011
with Independent Auditors' Report Thereon*

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DEAN || DORTON || ALLEN || FORD^{PLC}

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of the Kentucky League of Cities, Inc. and Subsidiaries (collectively, KLC) as of June 30, 2012, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of KLC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of KLC as of and for the year ended June 30, 2011, were audited by other auditors whose report, dated October 4, 2011, expressed an unqualified opinion on those statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KLC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KLC as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012 on our consideration of KLC's internal control over financial reporting and 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, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 - 5 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 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 the 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 audit 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.

Our audit was conducted for the purpose of forming an opinion on the 2012 consolidated financial statements as a whole. The consolidating schedules on pages 25 - 30 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2012 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 consolidated financial statements or to the 2012 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The consolidating information as of and for the year ended June 30, 2011, was audited by other auditors whose report, dated October 4, 2011, expressed an unqualified opinion on such information in relation to the financial statements as a whole.

Dean Dorton Allen Ford, PLLC

September 24, 2012
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, 2012. It should be read in conjunction with the consolidated financial statements, which begin on page 6.

Financial Highlights

- Operating revenues in total decreased approximately \$323,000 below last fiscal year. Administrative fees decreased approximately \$168,000. Commission, conference and training revenue remained consistent.
- Operating expenses decreased approximately \$520,000 primarily due to decreases in salary, meetings, seminars, trainings, and travel expenses.
- Earnings from investments decreased approximately \$521,000 below the prior year, primarily due to unrealized losses on investments.

Using this Annual Report

This report consists of a series of financial statements. The consolidated balance sheets on pages 6 - 7 provide information about the Organization as a whole.

Balance Sheets

Table 1 shows all of the assets and liabilities of the Organization and is presented on the accrual basis. The total net assets increased by \$514,737 as compared to an increase of \$933,434 in the prior year.

Table 1
Net Assets

	<u>2012</u>	<u>2011</u>
Current assets	\$ 14,308,328	\$ 12,427,882
Capital and other assets	<u>7,652,065</u>	<u>8,231,253</u>
Total assets	21,960,393	20,659,135
Current liabilities	7,874,940	6,824,821
Long-term liabilities	<u>3,655,123</u>	<u>3,918,721</u>
Total net assets	\$ <u>10,430,330</u>	\$ <u>9,915,593</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

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

Statements of Revenues, Expenses and Changes in Net Assets

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 \$168,000, primarily due to a decrease in the KMFC administrative fees, which is based on the outstanding balance of the bonds, see Note 8. Operating expenses were reallocated according to services provided through Legislative, Insurance, or other Member Services. Total operating expenses decreased approximately \$500,000 over the prior year primarily due to the dissolution of the NewCities Institute (see Note 10) and the reduction in meetings and travel expenses.

Table 2
Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Administrative fees	\$ 7,421,522	\$ 7,589,943
Commissions	2,258,622	2,235,039
Member dues	454,774	447,849
Member meeting and training income	296,012	278,904
Premium finance revenue	153,456	162,507
Other income	225,874	403,241
Publication income	<u>6,840</u>	<u>22,325</u>
Total operating revenues	10,817,100	11,139,808
Operating expenses:		
Administrative and general	(4,502,301)	(5,824,510)
In-kind contributions to NewCities Institute	-	(221,376)
Legislative services	(1,281,974)	(777,022)
Member financial services	(216,042)	(320,196)
Member insurance services	(5,208,792)	(4,491,723)
Member meeting and training services	<u>(161,004)</u>	<u>(254,856)</u>
Total operating expenses	(11,370,113)	(11,889,683)
Nonoperating revenues	<u>1,067,750</u>	<u>1,683,309</u>
Change in net assets	\$ <u>514,737</u>	\$ <u>933,434</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.

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 Balance Sheets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,644,324	\$ 1,676,517
Investments	5,294,393	5,303,890
Accounts receivable	374,577	592,299
Premiums receivable	127,806	76,369
Prepaid expenses and other assets	285,583	482,787
Due from related parties	<u>5,581,645</u>	<u>4,296,020</u>
Total current assets	14,308,328	12,427,882
Fixed assets:		
Land	674,175	674,175
Buildings	6,427,420	6,427,420
Furniture and fixtures	2,703,525	2,740,475
Improvements	<u>4,417,953</u>	<u>4,326,432</u>
	14,223,073	14,168,502
Less accumulated depreciation	<u>(6,571,008)</u>	<u>(5,937,249)</u>
Total fixed assets	<u>7,652,065</u>	<u>8,231,253</u>
Total assets	\$ <u>21,960,393</u>	\$ <u>20,659,135</u>

	<u>2012</u>	<u>2011</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 270,527	\$ 140,250
Accrued liabilities	894,799	1,036,553
Deferred revenue	577,089	518,368
Due to related parties	5,868,927	4,873,745
Current maturities of bond payable	<u>263,598</u>	<u>255,905</u>
Total current liabilities	7,874,940	6,824,821
Bond payable, net of current maturities	<u>3,655,123</u>	<u>3,918,721</u>
Total liabilities	11,530,063	10,743,542
Net assets:		
Invested in fixed assets, net of related debt	3,733,344	4,056,627
Unrestricted	<u>6,696,986</u>	<u>5,858,966</u>
Total net assets	<u>10,430,330</u>	<u>9,915,593</u>
 Total liabilities and net assets	 \$ <u>21,960,393</u>	 \$ <u>20,659,135</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue:		
Administrative fee - KLCIS	\$ 3,540,357	\$ 3,564,878
Administrative fee - KLCWCT	1,795,061	1,807,264
Administrative fee - KMFC	761,455	896,575
Administrative fee - KLCUCRT	106,362	126,188
Administrative fee - KSBIT	1,218,287	1,195,038
Commissions	2,258,622	2,235,039
Member dues	454,774	447,849
Member meeting and training income	296,012	278,904
Premium finance revenue	153,456	162,507
Other	225,874	403,241
Publication income	<u>6,840</u>	<u>22,325</u>
Total operating revenue	10,817,100	11,139,808
Operating expenses	<u>11,370,113</u>	<u>11,889,683</u>
Operating loss	(553,013)	(749,875)
Nonoperating revenue (expenses):		
Interest and investment income	168,657	689,557
Interest expense	(87,087)	(84,693)
(Loss) gain on sale of fixed assets	(1,602)	90,442
Net rental income	<u>987,782</u>	<u>988,003</u>
Total nonoperating revenue	<u>1,067,750</u>	<u>1,683,309</u>
Change in net assets	514,737	933,434
Net assets, beginning of year	<u>9,915,593</u>	<u>8,982,159</u>
Net assets, end of year	\$ <u>10,430,330</u>	\$ <u>9,915,593</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from members and affiliates	\$ 10,751,663	\$ 9,777,465
Cash paid to suppliers and employees	<u>(10,465,749)</u>	<u>(11,256,688)</u>
Net cash provided by (used in) operating activities	285,914	(1,479,223)
Cash flows from noncapital financing activities:		
Proceeds from draws on line of credit	6,000,000	6,000,000
Payments on line of credit	<u>(6,000,000)</u>	<u>(6,000,000)</u>
Net cash provided by noncapital financing activities	-	-
Cash flows from capital and related financing activities:		
Capital expenditures	(141,051)	(198,718)
Proceeds from sale of fixed assets	-	113,890
Principal payments on bond payable	(255,905)	(125,374)
Interest paid	<u>(87,087)</u>	<u>(84,693)</u>
Net cash used in capital and related financing activities	(484,043)	(294,895)
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	1,503,870	4,377,041
Interest and income on investments	210,721	687,310
Purchase of investments	(1,536,437)	(5,262,207)
Proceeds from rental activities	987,782	1,286,752
Cash paid to maintain rental property	<u>-</u>	<u>(220,293)</u>
Net cash provided by investing activities	<u>1,165,936</u>	<u>868,603</u>
Net increase (decrease) in cash and cash equivalents	967,807	(905,515)
Cash and cash equivalents, beginning of year	<u>1,676,517</u>	<u>2,582,032</u>
Cash and cash equivalents, end of year	<u>\$ 2,644,324</u>	<u>\$ 1,676,517</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

Years ended June 30, 2012 and 2011

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

Operating loss	\$ (553,013)	\$ (749,875)
Adjustments:		
Depreciation and amortization	724,433	663,531
Depreciation allocated as in-kind contribution	-	6,353
Increase (decrease) in cash due to changes in:		
Accounts receivable	217,722	578,634
Premiums receivable	(51,437)	6,032
Prepaid expenses and other assets	191,408	(118,051)
Due from/to related parties	(290,443)	(1,867,911)
Accounts payable	130,277	(9,154)
Accrued liabilities	(141,754)	90,316
Deferred revenue	<u>58,721</u>	<u>(79,098)</u>
Net cash provided by (used in) operating activities	\$ <u>285,914</u>	\$ <u>(1,479,223)</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)
- NewCities Institute, Inc.
- 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.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Basis of Presentation

KLC presents its financial statements in conformity with GAAP as applied to government units. The Governmental Accounting Standards Board (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. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Therefore, KLC follows GASB pronouncements and Financial Accounting Standards Board and predecessor boards' pronouncements issued on or before November 30, 1989, 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.

Deferred Revenue

Deferred revenue consists of KLC members' dues and premiums financed through KLCPFC. Members' annual dues are billed in advance throughout the year. These dues are deferred and subsequently recognized on a pro-rata basis. Total deferred revenue related to members' dues was \$301,533 and \$297,583 as of June 30, 2012 and 2011, respectively. KLCPFC 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 (deferred) revenue until earned. Total unearned premiums as of June 30, 2012 and 2011 were \$67,139 and \$37,262, respectively. Deferred revenue also includes convention, administrative fees, advertising fees and rent received in advance. Total other deferred revenue for KLC as of June 30, 2012 and 2011 was \$196,743 and \$171,470, 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 deferred revenue for KLCIA as of June 30, 2012 and 2011 was \$11,674 and \$12,053, respectively.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified for comparative purposes to conform with the 2012 presentation. These reclassifications had no impact on total assets, liabilities, and net assets or the change in net assets.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Subsequent Events

KLC's management evaluated the period from July 1, 2012 to September 24, 2012 (the date the financial statements were ready to be issued) for items requiring recognition or disclosure in the financial statements.

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

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It eliminates the need for financial statement preparers to determine which accounting principles apply to state and local governments. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011.

3. Deposits and Investments

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

	<u>2012</u>	<u>2011</u>
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	\$ 2,341,836	\$ 1,547,962
Money market mutual funds	<u>302,488</u>	<u>128,555</u>
	2,644,324	1,676,517
Investments classified as investment securities:		
U.S. government agencies and municipal obligations	1,929,963	2,095,974
Corporate and foreign bonds	551,311	591,382
Bond and fixed income mutual funds	-	230,038
Equity mutual funds	447,326	475,159
Equity securities	<u>2,365,793</u>	<u>1,911,337</u>
	<u>5,294,393</u>	<u>5,303,890</u>
Total deposits and investments	\$ <u>7,938,717</u>	\$ <u>6,980,407</u>

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

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 109,724	\$ 118,381
Realized gains on sales of securities	100,997	5,412
Unrealized (losses) gains on securities	<u>(42,064)</u>	<u>565,764</u>
	\$ <u>168,657</u>	\$ <u>689,557</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

3. Deposits and Investments, continued

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.

As of June 30, 2012, 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, 2012:

AA	\$ 111,726
A	524,715
Below A	28,689
Not rated or other	<u>1,816,144</u>
	<u>\$ 2,481,274</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, 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.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

3. Deposits and Investments, continued

As of June 30, 2012, 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	\$ 15,755	\$ -	\$ 1,914,208
Corporate and foreign bonds	-	108,961	442,350
	<u>\$ 15,755</u>	<u>\$ 108,961</u>	<u>\$ 2,356,558</u>

4. 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, 2012 and 2011 was 0.17% and 0.30%, 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,

2013	\$ 263,598
2014	271,369
2015	279,443
2016	287,640
2017	296,246
Thereafter	<u>2,520,425</u>
	<u>\$ 3,918,721</u>

5. Line of Credit

KLCPCF 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, 2013. KLC is a guarantor on the line of credit. No funds are drawn against the line as of June 30, 2012.

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 \$15,000 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. The current rate is 18.96% (16.93% for 2011) 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, 2012 and 2011, KLC contributed \$1,040,859 and \$987,511, respectively, to the retirement plan in effect.

7. Premium Financing Activities

As mentioned in Note 1 to the consolidated financial statements, KLC PFC 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. KLC PFC 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 4.49% to 8.25% for 2012 and for 2011 depending on the dollar amount of the premium financed. KLC PFC 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, KLCPFC 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, KLCPFC would receive the unearned amount of the premium from the Insurance Companies. KLCPFC recognizes premium finance revenue as earned based upon the terms of the contract. Total premium finance income for June 30, 2012 and 2011 was \$153,456 and \$162,507, respectively. Total premiums receivable as of June 30, 2012 and 2011 were \$127,806 and \$76,369, respectively. Total premiums (owed to) due from the Insurance Companies as of June 30, 2012 and 2011 were \$(330,875) and \$162,150, 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 an administrative service fee based on allocated costs plus a percentage of earned premiums.

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, 2012 and 2011 were approximately \$1,007,000 and \$917,000, respectively.

In the mid 1990's KLC formed the Finance Trust to oversee future bond pools. Since that time, KLC, through various member cities, has issued approximately \$450 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 on-going administrative fee. Any up-front fees are recognized into revenue evenly over a 10-year period.

For the year ended June 30, 2012 and 2011, KLC issued approximately \$6.6 million and \$47 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>2012</u>	<u>2011</u>
KLCIS accounts payable	\$ (5,868,927)	\$ (4,873,745)
KLCWCT accounts receivable	4,584,261	3,509,820
KLCUCRT accounts receivable	<u>997,384</u>	<u>786,200</u>
Net due to related parties	\$ <u>(287,282)</u>	\$ <u>(577,725)</u>
KSBIT - accounts receivable	\$ <u>106,079</u>	\$ <u>313,744</u>
Included in accounts receivable	\$ <u>106,079</u>	\$ <u>313,744</u>

10. NewCities Institute, Inc.

During 2011, KLC donated \$221,376 in services to NewCities Institute, Inc. (NewCities). During 2011, NewCities repaid \$25,000 to KLC. KLC recorded the payments as other income in the statement of revenues, expenses and changes in net assets. KLC had a service and license agreement with NewCities and under the agreement, KLC performed all administrative and general services for NewCities. In February 2011, KLC decided not to renew the agreement beyond June 30, 2011.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

11. Operating Expenses

Operating expenses for 2012 and 2011 by natural classification are as follows:

	<u>2012</u>	<u>2011</u>
Salaries	\$ 6,107,049	\$ 6,165,925
Retirement	1,040,859	987,511
Employee benefits	769,348	732,101
Depreciation	724,433	669,884
Professional services	608,980	635,826
Other expenses	457,475	688,187
Payroll taxes	417,466	432,226
Building management	353,307	256,527
Meetings	229,282	349,488
Legislative services	121,881	123,282
Telephones	109,544	87,909
Travel	96,715	122,962
Dues	77,688	64,565
Program and development	70,302	84,563
Office supplies	54,506	84,509
Publications	48,147	47,300
Postage	43,563	27,971
KLCFPC finance expenses	35,921	54,431
Bond administration	3,647	53,140
In-kind contributions to NewCities	<u>-</u>	<u>221,376</u>
	<u>\$ 11,370,113</u>	<u>\$ 11,889,683</u>

Operating expenses for 2012 and 2011 by functional classification are as follows:

	<u>2012</u>	<u>2011</u>
Administrative and general	\$ 4,502,301	\$ 5,824,510
Member insurance services	5,208,792	4,491,723
Legislative services	1,281,974	777,022
Member financial services	216,042	320,196
Member meeting and training services	161,004	254,856
In-kind contributions to NewCities	<u>-</u>	<u>221,376</u>
	<u>\$ 11,370,113</u>	<u>\$ 11,889,683</u>

DEAN || DORTON || ALLEN || FORD_{PLC}

**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 the financial statements of Kentucky League of Cities, Inc. and Subsidiaries (KLC) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 24, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of KLC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered KLC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KLC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KLC's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KLC's financial statements are free of 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 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*.

We noted certain matters we reported to management of KLC in a separate letter dated September 24, 2012.

This report is intended solely for the information and use of the Board of Directors, the audit committee and management of KLC and is not intended to be and should not be used by anyone other than these specified parties.

Dean Dotson Allen Ford, PLLC

September 24, 2012
Lexington, Kentucky

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Schedule of Findings and Responses

Year ended June 30, 2012

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 Balance Sheets

June 30, 2012

	Kentucky League of Cities	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
Assets					
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>

See accompanying notes and independent auditors' report.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Balance Sheets, continued

June 30, 2012

	Kentucky League of Cities	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 251,718	\$ 13,767	\$ 5,042	\$ -	\$ 270,527
Accrued liabilities	876,840	9,959	8,000	-	894,799
Deferred 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 assets:					
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 assets	<u>9,802,398</u>	<u>293,072</u>	<u>634,860</u>	<u>(300,000)</u>	<u>10,430,330</u>
Total liabilities and net assets	<u>\$ 20,992,084</u>	<u>\$ 328,472</u>	<u>\$ 1,045,916</u>	<u>\$ (406,079)</u>	<u>\$ 21,960,393</u>

See accompanying notes and independent auditors' report.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Balance Sheets, continued

June 30, 2011

	Kentucky League of Cities	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,270,417	\$ -	\$ 406,100	\$ -	\$ 1,676,517
Investments	5,603,890	-	-	(300,000)	5,303,890
Accounts receivable	436,933	155,366	-	-	592,299
Premiums receivable	-	-	76,369	-	76,369
Prepaid expenses and other assets	444,692	32,634	5,461	-	482,787
Due from related parties	<u>4,296,020</u>	<u>84,299</u>	<u>162,150</u>	<u>(246,449)</u>	<u>4,296,020</u>
Total current assets	12,051,952	272,299	650,080	(546,449)	12,427,882
Fixed assets:					
Land	674,175	-	-	-	674,175
Buildings	6,427,420	-	-	-	6,427,420
Furniture and fixtures	2,699,848	19,227	21,400	-	2,740,475
Improvements	<u>4,326,432</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,326,432</u>
	14,127,875	19,227	21,400	-	14,168,502
Less accumulated depreciation	<u>(5,898,574)</u>	<u>(17,275)</u>	<u>(21,400)</u>	<u>-</u>	<u>(5,937,249)</u>
Total fixed assets	<u>8,229,301</u>	<u>1,952</u>	<u>-</u>	<u>-</u>	<u>8,231,253</u>
Total assets	<u>\$ 20,281,253</u>	<u>\$ 274,251</u>	<u>\$ 650,080</u>	<u>\$ (546,449)</u>	<u>\$ 20,659,135</u>

See accompanying notes and independent auditors' report.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Balance Sheets, continued

June 30, 2011

	Kentucky League of Cities	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 109,089	\$ 26,120	\$ 5,041	\$ -	\$ 140,250
Accrued liabilities	978,758	49,795	8,000	-	1,036,553
Deferred revenue	469,053	12,053	37,262	-	518,368
Due to related parties	5,120,194	-	-	(246,449)	4,873,745
Current maturities of bond payable	<u>255,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>255,905</u>
Total current liabilities	6,932,999	87,968	50,303	(246,449)	6,824,821
Bond payable, net of current maturities	<u>3,918,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,918,721</u>
Total liabilities	10,851,720	87,968	50,303	(246,449)	10,743,542
Net assets:					
Invested in fixed assets, net of related debt	4,054,675	1,952	-	-	4,056,627
Unrestricted	<u>5,374,858</u>	<u>184,331</u>	<u>599,777</u>	<u>(300,000)</u>	<u>5,858,966</u>
Total net assets	<u>9,429,533</u>	<u>186,283</u>	<u>599,777</u>	<u>(300,000)</u>	<u>9,915,593</u>
Total liabilities and net assets	<u>\$ 20,281,253</u>	<u>\$ 274,251</u>	<u>\$ 650,080</u>	<u>\$ (546,449)</u>	<u>\$ 20,659,135</u>

See accompanying notes and independent auditors' report.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Revenues, Expenses and Changes in Net Assets

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 income	-	-	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 assets	372,865	106,789	35,083	-	514,737
Net assets, 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 assets, 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 independent auditors' report.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2011

	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	\$ 3,564,878	\$ -	\$ -	\$ -	\$ 3,564,878
Administrative fee - KLCWCT	1,807,264	-	-	-	1,807,264
Administrative fee - KMFC	896,575	-	-	-	896,575
Administrative fee - KLCUCRT	126,188	-	-	-	126,188
Administrative fee - Financial Services	75,000	-	-	(75,000)	-
Administrative fee - KSBIT	996,670	198,368	-	-	1,195,038
Commissions	2,293,797	2,235,039	-	(2,293,797)	2,235,039
Member dues	447,849	-	-	-	447,849
Member meeting and training income	278,904	-	-	-	278,904
Premium finance revenue	-	-	162,507	-	162,507
Other	160,809	230,859	11,573	-	403,241
Publication income	<u>22,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,325</u>
Total operating revenue	10,670,259	2,664,266	174,080	(2,368,797)	11,139,808
Operating expenses	<u>11,430,184</u>	<u>2,684,918</u>	<u>143,378</u>	<u>(2,368,797)</u>	<u>11,889,683</u>
Operating (loss) income	(759,925)	(20,652)	30,702	-	(749,875)
Nonoperating revenue (expenses):					
Interest and investment income	687,231	1,204	1,122	-	689,557
Interest expense	(84,693)	-	-	-	(84,693)
Gain on sale of fixed assets	90,442	-	-	-	90,442
Net rental income	<u>988,003</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>988,003</u>
Total nonoperating revenue	<u>1,680,983</u>	<u>1,204</u>	<u>1,122</u>	<u>-</u>	<u>1,683,309</u>
Change in net assets	921,058	(19,448)	31,824	-	933,434
Net assets, beginning of year	<u>8,508,475</u>	<u>205,731</u>	<u>567,953</u>	<u>(300,000)</u>	<u>8,982,159</u>
Net assets, end of year	<u>\$ 9,429,533</u>	<u>\$ 186,283</u>	<u>\$ 599,777</u>	<u>\$ (300,000)</u>	<u>\$ 9,915,593</u>

See accompanying notes and independent auditors' report.