

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

Consolidated Financial Statements

*Years Ended June 30, 2014 and 2013
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, 2014 and 2013, 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.

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, 2014 and 2013, 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 December 12, 2014 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

December 12, 2014
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, 2014. It should be read in conjunction with the consolidated financial statements, which begin on page 7.

Using this Annual Report

This report consists of a series of financial statements. The consolidated statements of net position on page 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 \$712,386 as compared to an increase of \$397,050 in the prior year.

Table 1
Net Position

	<u>2014</u>	<u>2013</u>
Current assets	\$ 9,391,052	\$ 8,871,385
Capital and other assets	<u>8,431,777</u>	<u>7,488,163</u>
Total assets	17,822,829	16,359,548
Current liabilities	2,312,896	2,148,414
Long-term liabilities	<u>3,970,167</u>	<u>3,383,754</u>
Total net position	\$ <u>11,539,766</u>	\$ <u>10,827,380</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 (KLCFT, KLCIS, KLCUCRT, KLCWCT, KSBIT) decreased approximately \$308,000, due to a decrease in KSBIT. Nonoperating revenues decreased approximately \$206,000, due to a decline in investment revenues. Total operating expenses decreased approximately \$665,000 from the prior year primarily due to decreases in salaries, benefits and other administrative expenses.

Table 2
Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating revenue:		
Administrative fees	\$ 6,888,715	\$ 7,196,659
Commissions	2,226,801	2,152,535
Member dues	465,638	463,335
Member meeting and training income	327,119	287,794
Premium finance revenue	169,420	153,452
Other	256,175	207,023
Publication income	<u>5,560</u>	<u>21,950</u>
Total operating revenue	10,339,428	10,482,748
Operating expenses:		
Administrative and general	(4,312,836)	(4,821,390)
Legislative services	(1,378,477)	(1,410,514)
Member financial services	(189,476)	(215,508)
Member insurance services	(4,926,802)	(5,025,835)
Member meeting and training services	<u>(180,876)</u>	<u>(180,009)</u>
Total operating expenses	(10,988,467)	(11,653,256)
Nonoperating revenue, net	<u>1,361,425</u>	<u>1,567,558</u>
Change in net position	\$ <u>712,386</u>	\$ <u>397,050</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

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

Description of Current and Expected Conditions

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,626,408	\$ 2,913,345
Investments	4,254,720	4,221,669
Accounts receivable	478,663	240,742
Premiums receivable	61,286	81,701
Prepaid expenses and other assets	395,249	691,028
Due from related parties	<u>574,726</u>	<u>722,900</u>
Total current assets	9,391,052	8,871,385
Fixed assets:		
Land	674,175	674,175
Buildings	6,427,420	6,427,420
Parking lot and improvements	1,239,306	-
Furniture and fixtures	2,745,269	2,644,162
Improvements	<u>5,289,173</u>	<u>4,907,391</u>
	16,375,343	14,653,148
Less accumulated depreciation	<u>(7,943,566)</u>	<u>(7,164,985)</u>
Total fixed assets	<u>8,431,777</u>	<u>7,488,163</u>
Total assets	<u>17,822,829</u>	<u>16,359,548</u>
Liabilities		
Current liabilities:		
Accounts payable	297,729	230,647
Accrued liabilities	832,621	1,057,937
Unearned revenue	831,917	560,515
Due to related parties	21,050	27,945
Current maturities of note payable	50,137	-
Current maturities of bond payable	<u>279,442</u>	<u>271,370</u>
Total current liabilities	2,312,896	2,148,414
Note payable, net of current maturities	865,855	-
Bond payable, net of current maturities	<u>3,104,312</u>	<u>3,383,754</u>
Total liabilities	<u>6,283,063</u>	<u>5,532,168</u>
Net Position		
Invested in fixed assets, net of related debt	4,132,031	3,833,039
Unrestricted	<u>7,407,735</u>	<u>6,994,341</u>
Total net position	<u>\$ 11,539,766</u>	<u>\$ 10,827,380</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenue:		
Administrative fee - KLCIS	\$ 3,973,309	\$ 3,541,689
Administrative fee - KLCWCT	1,828,820	1,756,178
Administrative fee - Bond Pools	632,244	647,645
Administrative fee - KLCUCRT	104,342	106,156
Administrative fee - KSBIT	350,000	1,144,991
Commissions	2,226,801	2,152,535
Member dues	465,638	463,335
Member meeting and training income	327,119	287,794
Premium finance revenue	169,420	153,452
Other	256,175	207,023
Publication income	<u>5,560</u>	<u>21,950</u>
Total operating revenue	10,339,428	10,482,748
Operating expenses	<u>10,988,467</u>	<u>11,653,256</u>
Operating loss	(649,039)	(1,170,508)
Nonoperating revenue (expenses):		
Interest and investment income	470,084	643,639
Interest expense	(106,115)	(81,375)
Gain on sale of fixed assets	-	7,760
Net rental income	<u>997,456</u>	<u>997,534</u>
Total nonoperating revenue	<u>1,361,425</u>	<u>1,567,558</u>
Change in net position	712,386	397,050
Net position, beginning of year	<u>10,827,380</u>	<u>10,430,330</u>
Net position, end of year	<u>\$ 11,539,766</u>	<u>\$ 10,827,380</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from members and affiliates	\$ 10,392,932	\$ 10,439,816
Cash paid to suppliers and employees	<u>(10,071,949)</u>	<u>(11,248,132)</u>
Net cash provided by (used in) operating activities	320,983	(808,316)
Cash flows from noncapital financing activities:		
Payments to related parties	<u>141,279</u>	<u>(788,397)</u>
Net cash provided by (used in) noncapital financing activities	141,279	(788,397)
Cash flows from capital and related financing activities:		
Capital expenditures	(1,722,195)	(510,951)
Proceeds from sale of fixed assets	-	7,760
Principal payments on bond payable	(271,370)	(263,597)
Proceeds from note payable	960,000	-
Principal payments on note payable	(44,008)	-
Interest paid	<u>(106,115)</u>	<u>(81,375)</u>
Net cash used in capital and related financing activities	(1,183,688)	(848,163)
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	1,068,306	2,558,823
Interest and income on investments	405,799	493,738
Purchase of investments	(1,037,072)	(1,336,198)
Proceeds from rental activities	<u>997,456</u>	<u>997,534</u>
Net cash provided by investing activities	<u>1,434,489</u>	<u>2,713,897</u>
Net increase in cash and cash equivalents	713,063	269,021
Cash and cash equivalents, beginning of year	<u>2,913,345</u>	<u>2,644,324</u>
Cash and cash equivalents, end of year	<u>\$ 3,626,408</u>	<u>\$ 2,913,345</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

Years ended June 30, 2014 and 2013

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (649,039)	\$ (1,170,508)
Adjustments:		
Depreciation and amortization	784,377	680,649
Provision for bad debts	392	75,257
Increase (decrease) in cash due to changes in:		
Accounts receivable	(238,313)	(135,262)
Premiums receivable	20,415	46,105
Prepaid expenses and other assets	289,983	(411,241)
Accounts payable	67,082	(39,880)
Accrued liabilities	(225,316)	163,138
Unearned revenue	<u>271,402</u>	<u>(16,574)</u>
Net cash provided by (used in) operating activities	\$ <u>320,983</u>	\$ <u>(808,316)</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 Bond Corporation (KBC)
- Kentucky League of Cities Funding Trust (KLCFT)
- Kentucky League of Cities Investment Pool (KLCIP)
- 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 Local Government Health Trust (KLGHT)
- 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. 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. 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 consisting of land, buildings, parking lot and improvements, furniture, equipment, and building and land improvements, 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 \$232,816 and \$230,333 as of June 30, 2014 and 2013, 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, 2014 and 2013 were \$147,187 and \$89,323, 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, 2014 and 2013 was \$195,866 and \$233,730, 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, 2014 and 2013 was \$256,048 and \$7,129, respectively.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified for comparative purposes to conform with the 2014 presentation. These reclassifications had no impact on total assets, liabilities, and net position or the change in net position.

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, 2013 to December 12, 2014 (the date the consolidated financial statements were ready to be issued) for subsequent events. Except as disclosed in Notes 5, 8, and 9, there were no events occurring during the evaluation period that require recognition or disclosure in the consolidated 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.

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>2014</u>	<u>2013</u>
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	\$ 3,182,985	\$ 2,907,290
Money market mutual funds	<u>443,423</u>	<u>6,055</u>
	3,626,408	2,913,345
Investments classified as investment securities:		
U.S. government agencies and municipal obligations	1,300,743	1,300,000
Corporate and foreign bonds	413,862	469,832
Equity mutual funds	386,673	264,716
Equity securities	<u>2,153,442</u>	<u>2,187,121</u>
	<u>4,254,720</u>	<u>4,221,669</u>
Total deposits and investments	\$ <u>7,881,128</u>	\$ <u>7,135,014</u>

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

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 138,504	\$ 96,712
Realized gains on sales of securities	267,295	397,026
Unrealized gains on securities	<u>64,285</u>	<u>149,901</u>
	\$ <u>470,084</u>	\$ <u>643,639</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, 2014, 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, 2014:

AA	\$ 111,729
A	250,463
Below A	51,670
Not rated or other	<u>1,300,743</u>
	<u>\$ 1,714,605</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, 2014, KLC had one investment that exceeded the 5% limit, which was within the policy guidelines as it was a series of bonds issued by the Kentucky Bond Corporation. At June 30, 2013, there were no investments held by KLC that exceeded this limit.

As of June 30, 2014, KLC had the following investment maturities:

	<u>Investment Maturities (in years)</u>			
	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Corporate bonds	\$ -	\$ 113,614	\$ 300,248	\$ -
U.S. government agencies and municipal obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,300,743</u>
Total maturities	<u>\$ -</u>	<u>\$ 113,614</u>	<u>\$ 300,248</u>	<u>\$ 1,300,743</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, 2014 and 2013 was 0.07% and 0.19%, 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,		
2015	\$	279,442
2016		287,640
2017		296,246
2018		305,002
2019		314,065
Thereafter		<u>1,901,359</u>
	\$	<u>3,383,754</u>

Note Payable

On July 10, 2013, KLC signed a promissory note with a financial institution in the amount of \$960,000, for the purpose of purchasing a parking lot. This note has a fixed interest rate of 3.79% for the term of the note, which is 15 years. The note is securitized by the deed to the parking lot. The following is a schedule of the required future principal payments in accordance with the promissory note.

Year ending June 30,		
2015	\$	50,137
2016		51,872
2017		53,990
2018		56,101
2019		58,295
Thereafter		<u>645,597</u>
	\$	<u>915,992</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

5. Lines of Credit

KLCPFC has a \$6,000,000 line of credit agreement with a 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, 2014 or 2013.

On September 15, 2014, KLCPFC entered into a \$5,300,000 line of credit agreement with a financial institution with a variable interest rate based on the 30-day LIBOR rate plus 1.9%. This line of credit matures on April 30, 2015. KLC is a guarantor on the line of credit.

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, 2014, the rate is 18.89% (19.55% for 2013) 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, 2014 and 2013, KLC contributed \$981,951 and \$1,100,396, respectively, to the retirement plan in effect.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

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 six to twelve months and the finance charges range from 4.25% to 7.99% depending on the dollar amount of the premium financed. KLCPFC also requires a 20% down payment on all amounts financed.

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, 2014 and 2013 was \$169,420 and \$153,452, respectively. Total premiums receivable as of June 30, 2014 and 2013 were \$61,286 and \$81,701, respectively. Total premiums due from the Insurance Companies as of June 30, 2014 and 2013 were \$595,809 and \$508,835, respectively, and are included within the due to/from related parties on the consolidated balance sheets.

8. Administration Fees

Revenues for the years ended June 30, 2014 and 2013 include administrative fees and commissions from the following related parties, together with receivables and payables due to and from these affiliates:

	Fees and Commissions		Receivables and (Payables)	
	2014	2013	2014	2013
KLCIS	\$ 4,870,817	\$ 4,325,189	\$ 442,089	\$ 26,185
KLCWCT	2,248,284	2,093,212	132,637	502,875
KLCUCRT	104,342	106,156	(20,890)	(27,945)
KSBITPLF	210,000	682,340	-	193,840
KSBITWCF	140,000	462,651	-	-
KBC	96,700	153,572	-	-
KLCFT	535,544	494,073	-	-
KLGH	-	-	(160)	-

KLC has an administrative agreement with KLCIS, KLCWCT, and KLCUCRT to provide substantially all operational, management and administrative services in exchange for a reimbursement of administrative costs. Additionally, KLCIA 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 and an administrative fee, as a percentage of premiums, for general marketing. Each agreement is subject to termination by either party upon 90 days written notice.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

8. Administration Fees, continued

KLC has an administrative agreement with KSBITPLF and KSBITWCT (collectively, KSBIT) to provide substantially all operational, management and administrative services in exchange for a reimbursement of administrative costs and a management fee, calculated as a percentage of annual gross premiums. 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. Subsequent to June 30, 2014, KLC assisted KSBIT during its transition to another administrator and this agreement was terminated.

KLC has an administrative agreement with KBC to provide monitoring of bond proceeds, origination of financing agreements, servicing of financing agreements, and other administrative services, in exchange for an administrative fee. This fee is comprised of an initial issuance fee and a financing fee equal to .25% of the aggregate unpaid principal components of all financing payments calculated on a quarterly basis, payable to the extent that monies are available in KBC's reserve funds. For the years ended June 30, 2014 and 2013, KBC issued approximately \$28 million and \$49.6 million, respectively, in bonds. The agreement is subject to termination by either party with 30 days written notice. The President and Second Vice President of KLC serve as members, non-voting and voting, respectively, of the Board of Trustees of KBC and the KLC Executive Board appoints the remaining 4 members of KBC's Board of Trustees.

KLC functions as the program administrator for KLCFT, which provides tax-exempt financing to members of KLC. In exchange for administrative services performed KLCFT pay's KLC an administrative fee. Additionally, KLC finances three lease agreements through the KLCFT, with outstanding principal balances of \$3,383,754 and \$3,655,124, as of June 30, 2014 and 2013, respectively.

KLC also functions as the program administrator for KLCIP, which provides pooled investment services to members of KLC. The KLC Executive Board appoints the members of KLCIP's Board of Trustees. KLC did not receive an administrative fee for 2014 or 2013.

9. Litigation

On August 26, 2014, the Department filed a suit against KLC, KLCIS, and the Kentucky School Boards Association for an unspecified amount of damages related to the administration of KSBIT. Specifically, the complaint contains allegations of negligence and misrepresentation in connection with the management of KSBITWCF and KSBITPLF. The allegations against KLC and KLCIS are limited to the time period beginning January 2010 through July 2013. KLC and KLCIS strongly deny the allegations. Discovery has begun and a preliminary analysis by defense counsel concludes that both entities have a strong defense and the potential for liability is low. KLC and KLCIS are covered by an Errors and Omissions and Directors' and Officers' Liability Policy issued by Lloyds of London through Broker's Risk Services with a \$10 million limit. The claim has been reported to the carrier and a defense is being provided for both entities under the policy.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

10. Operating Expenses

Operating expenses for 2014 and 2013 by natural classification are as follows:

	<u>2014</u>	<u>2013</u>
Salaries	\$ 5,762,322	\$ 6,210,963
Retirement	981,951	1,100,396
Depreciation and amortization	784,377	680,649
Other expenses	692,026	558,030
Employee benefits	667,619	791,371
Professional services	435,100	553,432
Payroll taxes	393,998	435,891
Building management	337,867	353,468
Meetings	289,568	280,373
Legislative services	135,659	131,388
Travel	131,760	110,924
Telephones	96,931	103,874
Dues	58,035	58,245
Program and development	53,040	78,832
KLCPFC finance expenses	47,456	47,803
Office supplies	45,001	64,345
Postage	41,857	38,588
Publications	28,526	50,084
Bond administration	<u>5,374</u>	<u>4,600</u>
	<u>\$ 10,988,467</u>	<u>\$ 11,653,256</u>

Operating expenses for 2014 and 2013 by functional classification are as follows:

	<u>2014</u>	<u>2013</u>
Administrative and general	\$ 4,312,836	\$ 4,821,390
Member insurance services	4,926,802	5,025,835
Legislative services	1,378,477	1,410,514
Member financial services	189,476	215,508
Member meeting and training services	<u>180,876</u>	<u>180,009</u>
	<u>\$ 10,988,467</u>	<u>\$ 11,653,256</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, 2014, 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 December 12, 2014.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency.

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*.

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

December 12, 2014
Lexington, Kentucky

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Schedule of Findings and Responses

Year ended June 30, 2014

Section I - Summary of Auditors' Results

- a. The type of report issued on the financial statements: **Unmodified opinion**
- b. Material weaknesses identified in the internal control over financial reporting: **No**
- c. Significant deficiencies identified in the internal control over financial reporting: **Yes**
- d. Non-compliance which is material to the financial statements: **No**

Section II - Summary of Findings and Responses

Finding 2014-001:

Criteria, Condition, and Effect:

During the audit, we noted that administrative fees paid to a related entity have not been "trued up" from budgeted costs to actual costs incurred, in accordance with the administration agreement in place. This practice may lead to liabilities or assets of KLC not being recorded, which over time can cause misstatements to the financial statements.

Recommendation:

We recommend that the "true up" reconciliation between actual and budgeted administrative fees be performed. Additionally, we recommend that management perform a review of significant contracts and agreements for accounting implications and maintain a document that summarizes the accounting implications and the plan to ensure the proper accounting treatment.

Management Response:

Management has reviewed all significant contracts and agreements and recorded the accounting implications. The administrative fees paid to a related entity have been "trued up" for budget to actual costs for the last three fiscal years, and an adjustment of \$41,644 has been recorded through June 30, 2014 on the financial statements of the KLC.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Net Position

June 30, 2014

	KLC	KLCIA	KLCPFC	Consolidating Entries	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 2,874,772	\$ -	\$ 751,636	\$ -	\$ 3,626,408
Investments	4,554,720	-	-	(300,000)	4,254,720
Accounts receivable	447,917	241,978	-	(211,232)	478,663
Premiums receivable	-	-	61,286	-	61,286
Prepaid expenses and other assets	376,480	13,307	5,462	-	395,249
Due from related parties	<u>2,934,383</u>	<u>2,565,610</u>	<u>4,030</u>	<u>(4,929,297)</u>	<u>574,726</u>
Total current assets	11,188,272	2,820,895	822,414	(5,440,529)	9,391,052
Fixed assets:					
Land	674,175	-	-	-	674,175
Buildings	6,427,420	-	-	-	6,427,420
Parking lot and improvements	1,239,306	-	-	-	1,239,306
Furniture and fixtures	2,704,642	19,227	21,400	-	2,745,269
Improvements	<u>5,289,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,289,173</u>
	16,334,716	19,227	21,400	-	16,375,343
Less accumulated depreciation	<u>(7,902,939)</u>	<u>(19,227)</u>	<u>(21,400)</u>	<u>-</u>	<u>(7,943,566)</u>
Total fixed assets	<u>8,431,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,431,777</u>
Total assets	<u>19,620,049</u>	<u>2,820,895</u>	<u>822,414</u>	<u>(5,440,529)</u>	<u>17,822,829</u>

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Net Position, continued

June 30, 2014

	KLC	KLCIA	KLCPFC	Consolidating Entries	Consolidated Total
Liabilities					
Current liabilities:					
Accounts payable	273,912	18,775	5,042	-	297,729
Accrued liabilities	832,153	468	-	-	832,621
Unearned revenue	639,914	256,048	147,187	(211,232)	831,917
Due to related parties	2,599,058	2,350,368	921	(4,929,297)	21,050
Current maturities of note payable	50,137	-	-	-	50,137
Current maturities of bond payable	<u>279,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>279,442</u>
Total current liabilities	4,674,616	2,625,659	153,150	(5,140,529)	2,312,896
Note payable, net of current maturities	865,855	-	-	-	865,855
Bond payable, net of current maturities	<u>3,104,312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,104,312</u>
Total liabilities	<u>8,644,783</u>	<u>2,625,659</u>	<u>153,150</u>	<u>(5,140,529)</u>	<u>6,283,063</u>
Net Position					
Invested in fixed assets, net of related debt	4,132,031	-	-	-	4,132,031
Unrestricted	<u>6,843,235</u>	<u>195,236</u>	<u>669,264</u>	<u>(300,000)</u>	<u>7,407,735</u>
Total net position	<u>\$ 10,975,266</u>	<u>\$ 195,236</u>	<u>\$ 669,264</u>	<u>\$ (300,000)</u>	<u>\$ 11,539,766</u>

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statements of Net Position

June 30, 2013

	KLC	KLCIA	KLCPFC	Consolidating Entries	Consolidated Total
Assets					
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	208,960	31,782	-	-	240,742
Premiums receivable	-	-	81,701	-	81,701
Prepaid expenses and other assets	663,251	22,315	5,462	-	691,028
Due from related parties	<u>722,900</u>	<u>301,041</u>	<u>1,331</u>	<u>(302,372)</u>	<u>722,900</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

	KLC	KLCIA	KLCPFC	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 Revenues, Expenses and Changes in Net Position

Year ended June 30, 2014

	KLC	KLCIA	KLCPFC	Consolidating Entries	Consolidated Total
Operating revenue:					
Administrative fee - KLCIS	\$ 3,973,309	\$ -	\$ -	\$ -	\$ 3,973,309
Administrative fee - KLCWCT	1,828,820	-	-	-	1,828,820
Administrative fee - Bond Pools	632,244	-	-	-	632,244
Administrative fee - KLCUCRT	104,342	-	-	-	104,342
Administrative fee - Financial Services	75,000	-	-	(75,000)	-
Administrative fee - KSBIT	350,000	-	-	-	350,000
Commissions	2,004,121	2,226,801	-	(2,004,121)	2,226,801
Member dues	465,638	-	-	-	465,638
Member meeting and training income	327,119	-	-	-	327,119
Premium finance income	-	-	169,420	-	169,420
Other	210,440	30,677	15,058	-	256,175
Publication income	<u>5,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,560</u>
Total operating revenue	9,976,593	2,257,478	184,478	(2,079,121)	10,339,428
Operating expenses	<u>10,551,453</u>	<u>2,385,470</u>	<u>130,665</u>	<u>(2,079,121)</u>	<u>10,988,467</u>
Operating (loss) income	(574,860)	(127,992)	53,813	-	(649,039)
Nonoperating revenue (expenses):					
Interest and investment income	469,641	327	116	-	470,084
Interest expense	(106,115)	-	-	-	(106,115)
Net rental income	<u>997,456</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>997,456</u>
Total nonoperating revenue	<u>1,360,982</u>	<u>327</u>	<u>116</u>	<u>-</u>	<u>1,361,425</u>
Change in net position	786,122	(127,665)	53,929	-	712,386
Net position, beginning of year	<u>10,189,144</u>	<u>322,901</u>	<u>615,335</u>	<u>(300,000)</u>	<u>10,827,380</u>
Net position, end of year	<u>\$ 10,975,266</u>	<u>\$ 195,236</u>	<u>\$ 669,264</u>	<u>\$ (300,000)</u>	<u>\$ 11,539,766</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, 2013

	KLC	KLCIA	KLCPFC	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 - Bond Pools	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 revenue	-	-	153,452	-	153,452
Other	167,383	11,905	27,735	-	207,023
Publication income	21,950	-	-	-	21,950
Total operating revenue	10,134,403	2,314,431	181,187	(2,147,273)	10,482,748
Operating expenses	11,315,003	2,284,698	200,828	(2,147,273)	11,653,256
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	997,534	-	-	-	997,534
Total nonoperating revenue	1,567,346	96	116	-	1,567,558
Change in net position	386,746	29,829	(19,525)	-	397,050
Net position, beginning of year	9,802,398	293,072	634,860	(300,000)	10,430,330
Net position, end of year	\$ 10,189,144	\$ 322,901	\$ 615,335	\$ (300,000)	\$ 10,827,380

See accompanying notes and report of independent auditors.