

**KENTUCKY LEAGUE OF CITIES
UNEMPLOYMENT COMPENSATION
REIMBURSEMENT TRUST
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 Trustees
 Kentucky League of Cities Unemployment Compensation Reimbursement Trust
 Lexington, Kentucky

We have audited the accompanying statement of net assets of Kentucky League of Cities Unemployment Compensation Reimbursement Trust (the Trust) as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Trust as of and for the year ended June 30, 2011 were audited by other auditors whose report, dated January 5, 2012, 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 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 the Trust'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 financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of June 30, 2012, and the results of its operations 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 January 31, 2013 on our consideration of the Trust'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 of internal control over financial reporting and compliance and the results of that 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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Board of Trustees

Kentucky League of Cities Unemployment Compensation Reimbursement Trust

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-4 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 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.

Dean Dotson Allen Ford, PLLC

January 31, 2013

Lexington, Kentucky

Kentucky League of Cities Unemployment Compensation Reimbursement Trust

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of the Kentucky League of Cities Unemployment Compensation Reimbursement Trust (the Trust) provides an overview of the Trust's financial activity for the fiscal year ended June 30, 2012. It should be read in conjunction with the financial statements, which begin on page 5.

Using this Annual Report

This report consists of a series of financial statements. The statements of net assets on page 5 provides information about the Trust as a whole.

Statements of Net Assets

Table 1 shows all of the assets and liabilities of the Trust and is presented on the accrual basis. The total net assets increased \$151,274 for the current fiscal year, compared to the decrease of \$(169,725) during the prior fiscal year. The current fiscal year increase in net assets is primarily due to an increase in member contributions from rate increases and an increase in investments. Please see additional information included under Statements of Revenues, Expenses and Changes in Net Assets.

Table 1
Net Assets

	<u>2012</u>	<u>2011</u>
Cash and investments	\$ 5,077,997	\$ 4,773,287
Other assets	<u>544,423</u>	<u>622,826</u>
Total assets	5,622,420	5,396,113
Claims payable	365,402	501,053
Other liabilities	<u>1,002,885</u>	<u>792,201</u>
Total liabilities	<u>1,368,287</u>	<u>1,293,254</u>
Total net assets	<u>\$ 4,254,133</u>	<u>\$ 4,102,859</u>

Kentucky League of Cities Unemployment Compensation Reimbursement Trust

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 Trust and is also presented on the accrual basis. Interest and investment income increased \$177,043 or 135.5% from the prior fiscal year, primarily due to being fully invested in securities for the duration of the year. During the previous year, the Trust maintained greater balances in cash and cash equivalents, which earned very little returns. Benefit payments increased 4.1% for the current fiscal year as compared to a 2.6% increase in the prior fiscal year.

Table 2
Change in Net Assets

Year ended June 30,	<u>2012</u>	<u>2011</u>
Participant deposits	\$ 2,003,758	\$ 1,799,144
Investment and other revenue, net of investment expenses	<u>307,714</u>	<u>130,671</u>
Total revenues	2,311,472	1,929,815
Benefit payments	1,993,506	1,914,496
Operating expenses	<u>161,609</u>	<u>177,650</u>
Total expenses	2,155,115	2,092,146
Return of net assets to cancelled members	<u>(5,083)</u>	<u>(7,394)</u>
Change in net assets	\$ <u>151,274</u>	\$ <u>(169,725)</u>

Description of Current and Expected Conditions

Benefits payments are expected to remain high, but also continue to level off next year due to the continued economic focus on lowering unemployment rates nation-wide. Each member's benefit payments only affect their own individual balances. Investment income is allocated to each member with a positive balance proportionate to the balance of the entire Trust.

Contacting the Organization's Financial Management

This financial report is designed to provide a general overview of Kentucky League of Cities Unemployment Compensation Reimbursement Trust's finances and to show the Trust's accountability to its members. If you have questions about this report or need additional financial information, contact the Kentucky League of Cities' office at 100 East Vine Street, Suite 800, Lexington, KY 40507.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Statements of Net Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 14,099	\$ 127,596
Investment securities, at fair value	5,063,898	4,645,691
Accrued investment income	31,966	29,605
Receivable from participants, net of allowance of \$3,280 in both 2012 and 2011	<u>512,457</u>	<u>593,221</u>
Total assets	<u>\$ 5,622,420</u>	<u>\$ 5,396,113</u>
Liabilities and Net Assets		
Payable to Commonwealth of Kentucky	\$ 365,402	\$ 501,053
Payable to related entity	997,385	786,201
Other liabilities	<u>5,500</u>	<u>6,000</u>
Total liabilities	1,368,287	1,293,254
Net assets	<u>4,254,133</u>	<u>4,102,859</u>
Total liabilities and net assets	<u>\$ 5,622,420</u>	<u>\$ 5,396,113</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Participant deposits	\$ 1,645,743	\$ 1,424,704
Reimbursement of participants' deficit balances	<u>358,015</u>	<u>374,440</u>
Total operating revenues	2,003,758	1,799,144
Operating expenses:		
Benefit payments	1,993,506	1,914,496
Other operating expenses	<u>161,609</u>	<u>177,650</u>
Total operating expenses	<u>2,155,115</u>	<u>2,092,146</u>
Operating loss	(151,357)	(293,002)
Nonoperating revenue:		
Interest and investment revenue and gains, net of investment expenses	<u>307,714</u>	<u>130,671</u>
Income (loss) before distributions	156,357	(162,331)
Return of net assets to cancelled members	<u>(5,083)</u>	<u>(7,394)</u>
Change in net assets	151,274	(169,725)
Net assets, beginning of year	<u>4,102,859</u>	<u>4,272,584</u>
Net assets, end of year	<u>\$ 4,254,133</u>	<u>\$ 4,102,859</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Premiums collected	\$ 2,084,522	\$ 1,691,824
Benefits paid	(2,129,157)	(2,073,848)
Other payments	<u>49,075</u>	<u>474,337</u>
Net cash provided by operating activities	4,440	92,313
Cash flows from capital and related financing activities:		
Trust distributions paid and return of net assets to cancelled members	(5,083)	(93,555)
Cash flows from investing activities:		
Purchase of investments	(4,870,111)	(4,272,705)
Proceeds from sale of investments	4,593,140	-
Interest and dividends received	<u>164,117</u>	<u>110,967</u>
Net cash used in investing activities	<u>(112,854)</u>	<u>(4,161,738)</u>
Net decrease in cash and cash equivalents	(113,497)	(4,162,980)
Cash and cash equivalents, beginning of year	<u>127,596</u>	<u>4,290,576</u>
Cash and cash equivalents, end of year	<u>\$ 14,099</u>	<u>\$ 127,596</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (151,357)	\$ (293,002)
Increase (decrease) in cash due to changes in:		
Receivable from participants	80,764	(107,320)
Payable to Commonwealth of Kentucky	(135,651)	(159,352)
Payable to related entity	211,184	651,987
Other liabilities	<u>(500)</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 4,440</u>	<u>\$ 92,313</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements

1. Description of Organization

The Kentucky League of Cities Unemployment Compensation Reimbursement Trust (the Trust) was organized as a nonprofit trust by the Kentucky League of Cities, Inc. (KLC), effective January 1, 1979. The Trust was established as a service to KLC members and their related agencies who elect coverage (Participants) under the Kentucky Unemployment Compensation Amendments of 1976 and KRS 341.277. These statutes provide that governmental entities, in lieu of making contributions to the Kentucky Unemployment Compensation Fund, can elect to reimburse the Commonwealth of Kentucky (the Commonwealth) for all benefits paid to workers for compensatable weeks of unemployment.

The Participants make quarterly deposits to the Trust based upon deposit rates determined by an actuary and approved by the Board of Trustees. Benefits paid by the Commonwealth are reimbursed by the Trust and charged to each participant's account. The Agreement of Participation provides that each participant is responsible for all benefits paid to its employees, and each participant is required to make additional deposits to the Trust if its deposits plus allocated investment income are less than benefits and allocated expenses charged to its account. Thus, the Trust assumes no liability for participant deficit balances, as it operates as a pool of self-insured members rather than as a group self-insurer. As of June 30, 2012 and 2011, participation in the Trust included 311 and 312 members, respectively.

Following is a description of the most significant risks facing the Trust and how the Trust mitigates those risks:

Legal/Regulatory Risk

Legal/regulatory risk is the risk that changes in the legal or regulatory environment in which the Trust operates will occur and create additional losses or expenses not anticipated by the Trust in pricing its products. That is, regulatory initiatives designed to reduce Trust profits or new legal theories may create costs for the Trust beyond those currently recorded in the financial statements. The Trust is exposed to this risk by maintaining all of its business in Kentucky, thus increasing its exposure to a single jurisdiction. The risk is reduced by practices that identify and minimize the adverse impact of this risk.

Credit Risk

Credit risk is the risk that issuers of securities owned by an insurer will default or that other parties that owe the insurer money will not pay. The Trust minimizes this risk by adhering to a conservative investment strategy, by maintaining credit and collection policies, and by providing an allowance for any amounts deemed uncollectible.

Interest Rate Risk

Interest rate risk is the risk that interest rates will change and cause a decrease in the value of the Trust's investments. The Trust mitigates this risk by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Trust would have to sell assets prior to maturity and recognize a gain or loss.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies

Basis of Accounting

The Trust uses the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

The Trust presents its financial statements in conformity with accounting principles generally accepted in the United States of America (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, the Trust has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Therefore, the Trust follows GASB pronouncements, Financial Accounting Standards Board (FASB) and predecessor boards' pronouncements issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of money market fund investments. For purposes of the statement of cash flows, the Trust considers all short-term investments with original maturities of three months or less to be cash equivalents.

Investment Securities

Investment securities consist of fixed income mutual funds, bonds, and other obligations of the U.S. Treasury and other corporations of the U.S. Government and are held by bank administered trust funds. Investment securities are stated at fair value based, generally, on quoted market prices. Changes in the fair value of investment securities are reported as revenue. The specific identification method is used to determine the cost of securities sold. Realized and unrealized gains and losses are included in interest and investment revenue, under nonoperating revenue.

Payable to Commonwealth of Kentucky

The liability for unemployment benefits payable to the Commonwealth represents quarterly benefits paid by the Commonwealth during the year that were reimbursed by the Trust subsequent to year end. The Trust does not recognize any liability for future benefits that may become payable relating to unemployment prior to year end, since each participant is ultimately liable for benefits paid to its employees.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Participant Accounts

Investment income, net of investment expenses, is allocated quarterly to participants based upon their pro rata share of the total net assets at the beginning of that quarter. Operating expenses are allocated at the end of the year based upon the percentage of each participant's number of employees to the total number of employees for all participants.

Federal Income Taxes

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

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through January 31, 2013, the date that the financial statements were available to be issued. There were no events occurring during the evaluation period that require recognition or disclosure in the financial statements.

3. Deposits and Investments

The composition of the Trust's investment portfolio must meet certain criteria as set forth in the Kentucky Revised Statutes. Investments held by the Trust as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 14,099	\$ 127,596
Investment securities:		
U.S. government agency obligations	2,319,042	2,002,269
Corporate and foreign bonds	1,210,204	1,151,688
Fixed income equity mutual funds	<u>1,534,652</u>	<u>1,491,734</u>
Total investment securities	<u>5,063,898</u>	<u>4,645,691</u>
Total cash, cash equivalents, and investment securities	<u>\$ 5,077,997</u>	<u>\$ 4,773,287</u>

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

3. Deposits and Investments, continued

As of June 30, 2012, the Trust had the following investment maturities in years:

	Less than 1	1-5	6-10	More than 10
U.S. government agencies and municipal obligations	\$ -	\$ 231,500	\$ 247,372	\$ 1,840,170
Corporate and foreign bonds	-	208,310	1,001,894	-
Total maturities	\$ -	\$ 439,810	\$ 1,249,266	\$ 1,840,170

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

	2012	2011
Interest and dividend income	\$ 166,495	\$ 137,041
Realized gains on sales of securities	8,217	287
Unrealized gains (losses) on securities	133,002	(6,657)
	\$ 307,714	\$ 130,671

Credit Risk

As of June 30, 2012, the Trust was invested in several U.S. government agency bonds, state and local municipal bonds and corporate and foreign bonds, which have the following ratings as of June 30, 2012:

AA	\$ 757,362
A	1,096,195
Below A	138,827
N/A	1,536,862
	\$ 3,529,246

Custodial Credit Risk - Deposits

Cash equivalents include investments in a money market fund that are not federally insured.

Concentration of Credit Risk

The Trust has a concentration of credit risk in that 20% of total investments were in Federal Home Loan Mortgage Corporation bonds and 11% of total investments were in Federal National Mortgage Association bonds. The amount invested in Federal Home Loan Mortgage Corporation bonds as of June 30, 2012 was \$1,003,362. The amount invested in Federal National Mortgage Association bonds as of June 30, 2012 was \$533,501.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

4. Receivable from Participants

Amounts receivable from participants consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Deposits for the three-month period ended June 30	\$ 404,497	\$ 387,908
Deficit balance reimbursements for the three-month period ended June 30	111,240	208,593
Less allowance for doubtful accounts	<u>(3,280)</u>	<u>(3,280)</u>
Total receivable from participants	<u>\$ 512,457</u>	<u>\$ 593,221</u>

The Agreement of Participation authorizes the Board of Trustees to require additional deposits from individual participants should their account reflect a deficit balance due to unfavorable experience or should the Trust become financially incapable of meeting its payment obligations. Deficit balances are billed to the participants quarterly, with reimbursements due within 30 days of notification.

5. Participant Deposits

Participants deposit to the Trust a percentage of the first \$6,000 in annual wages paid to each of their covered employees. The percentage averaged 15.3% in 2012 and is based upon each participants' past experience. To facilitate participants' quarterly reporting to the Trust, the current board-approved formula adjusts the annual deposit rate to allow quarterly calculations on gross wages.

6. Service Bureau

The Trust has contracted with Talx, Inc. for unemployment compensation claims management services. Notification of payments due are submitted by the Commonwealth to Talx, Inc. who reviews the claims for validity and initiates a protest if applicable. Claims approved for payment by Talx, Inc. are then reported to the Trust and charged to the respective participant's account. For the year ended June 30, 2012, the fee for this service was \$10,430 per quarter, subject to a 3% increase each January 1. This fee is charged to the participants' accounts in equal quarterly installments. Service bureau fees were \$43,631 and \$42,360 for years ended June 30, 2012 and 2011, respectively.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

7. Related Party Transactions

The following entities are the Trust's related entities:

- Kentucky League of Cities (KLC)
- Kentucky League of Cities Insurance Agency (KLCIA)
- Kentucky League of Cities Premium Finance Company (KLCPFC)
- Kentucky League of Cities Insurance Services (KLCIS)
- Kentucky League of Cities Workers Compensation Trust (KLCWCT)
- Kentucky School Boards Insurance Trust Workers Compensation Fund (KSBITWCF)
- Kentucky School Boards Insurance Trust Property and Liability Fund (KSBITPLF)

During the years ended June 30, 2012 and 2011, KLC charged each Trust participant an administrative fee of \$6.00 per average full-time equivalent employee. The annual fee is charged to the participants' accounts in equal quarterly installments. The expense incurred by the Trust for this fee was \$106,801 and \$126,188 for the years ended June 30, 2012 and 2011, respectively.

KLCIS reports amounts as being due from or due to related parties. Related party receivables and payables included within KLCIS' statements of net assets consist of the following as of June 30:

	<u>2012</u>	<u>2011</u>
KLC accounts receivable	\$ 227,711	\$ 824,176
KLCIS accounts payable	(5,868,927)	(4,873,747)
KLCWCT accounts receivable	4,584,260	3,509,820
KLCPFC accounts receivable (payable)	330,875	(162,150)
KLCIA accounts payable	<u>(271,304)</u>	<u>(84,300)</u>
Total due to related entities	<u>\$ (997,385)</u>	<u>\$ (786,201)</u>

8. Trust Distributions

The Trust authorized the return of \$5,083 and \$7,394 to members who elected to withdraw from the Trust during the years ended June 30, 2012 and 2011, respectively.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

9. Other Operating Expenses

Other operating expenses consisted of the following for the years ended June 30:

	<u>2012</u>		<u>2011</u>
Service bureau fees	\$ 43,631	\$	42,360
KLC administrative fees	106,801		126,188
Professional fees	7,500		6,500
Other expenses	<u>3,677</u>		<u>2,602</u>
Total other operating expenses	<u>\$ 161,609</u>	\$	<u>177,650</u>

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

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 Trustees
Kentucky League of Cities Unemployment Compensation Reimbursement Trust
Lexington, Kentucky

We have audited the financial statements of Kentucky League of Cities Unemployment Compensation Reimbursement Trust (Trust) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 31, 2013. 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 the Trust is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Trust'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 the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 previously.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust'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 the Trust in a separate letter dated January 31, 2013.

This report is intended solely for the information and use of the Board of Trustees, members and management of the Trust and is not intended to be and should not be used by anyone other than these specified parties.

Dean Dotson Allen Ford, PLLC

January 31, 2013
Lexington, Kentucky