

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

**CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**Years Ended June 30, 2010 and 2009**

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

**TABLE OF CONTENTS**

June 30, 2010 and 2009

	<u>Page</u>
Independent Auditor's Report .....	1 - 2
Management's Discussion and Analysis.....	3 - 5
 <b>Consolidated Financial Statements and Supplemental Information</b>	
Consolidated Balance Sheets.....	6
Consolidated Statements of Revenues, Expenses and Changes in Net Assets .....	7
Consolidated Statements of Cash Flows.....	8 - 9
Notes to the Consolidated Financial Statements .....	10 - 18
 <b>Supplementary Information:</b>	
Consolidating Balance Sheets .....	19 - 22
Consolidating Statements of Revenues, Expenses and Changes in Net Assets .....	23 - 24
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.....	25 - 26



Mountjoy  
Chilton  
Medley

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Kentucky League of Cities, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Kentucky League of Cities, Inc. and Subsidiaries as of June 30, 2010 and 2009 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 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 also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Kentucky League of Cities, Inc. and Subsidiaries as of June 30, 2010 and 2009 and the changes in its net assets and its cash flows for the years 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 March 6, 2011 on our consideration of Kentucky League of Cities, Inc. and Subsidiaries' 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.

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

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175 East Main Street  
Suite 200  
Lexington, KY 40507

859.514.7800 Phone  
859.514.7805 Fax  
www.mcmcpa.com

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Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 19 - 24 is 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 corporations. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Montjoy Chilton Medley LLP*

Lexington, Kentucky  
March 6, 2011

## 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, Inc.) provides an overview of the Organization's financial activity for the fiscal year ended June 30, 2010. It should be read in conjunction with the consolidated financial statements, which begin on page 6.

#### Financial Highlights

- Total assets decreased approximately \$1,311,000 over last year primarily due to the timing of the checking account sweep of insurance premiums to KLC Insurance Services and KLC Workers' Compensation Trust.
- Operating revenues decreased approximately \$313,000 over last year primarily due to a decrease in administrative fees from the municipal finance program and commission revenue from the KLC Agency. Operating expenses decreased approximately \$361,000.
- Earnings from investments increased approximately \$1,000,000 from the prior year. Investment earnings totaled \$587,521 as compared to (\$411,695) from the prior year.

#### Using this Annual Report

This report consists of a series of financial statements. The consolidated balance sheet on page 6 provides 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 \$635,208 as compared to a decrease of \$431,370 from the prior year. This increase is primarily due to the reduction of \$361,000 in operating expenses and the rebounding investment performance.

**Table 1**  
**Net Assets**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Current assets	\$ 12,395,507	\$ 13,135,442
Capital and other assets	<u>8,800,335</u>	<u>9,371,602</u>
Total Assets	21,195,842	22,507,044
Current liabilities	8,039,056	10,195,093
Long-term liabilities	<u>4,174,627</u>	<u>3,965,000</u>
Total net assets	<u>\$ 8,982,159</u>	<u>\$ 8,346,951</u>

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### Management's Discussion and Analysis (*Unaudited*)

#### Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows all the revenues and expenses of the Organization and is presented on the accrual basis of accounting. The administrative fee for providing staffing and overhead to the KLC related entities (KMFC, KLCIS, KLCUCRT, KLCWCT, KSBIT) decreased just over \$187,000 due to a closure of a bond pool. The operating expenses decreased approximately \$361,000 from the prior year.

**Table 2**  
**Revenues, Expenses and Changes in Net Assets**

	<u>Year Ended</u> <u>June 30, 2010</u>	<u>Year Ended</u> <u>June 30, 2009</u>
Operating revenues:		
Administrative fees	\$ 7,184,140	\$ 7,371,635
Commissions	2,482,247	2,784,942
Member dues	449,500	448,532
Conference income	233,495	275,382
Premium finance revenue	155,913	170,869
Other income	430,685	170,882
Publication income	<u>5,461</u>	<u>32,401</u>
 Total operating revenues	 10,941,441	 11,254,643
Operating expenses:		
Administrative and general	(4,789,438)	(4,623,112)
In-kind contributions to NewCities Institute	(678,846)	(824,634)
Legislative services	(731,362)	(850,705)
Member financial services	(290,414)	(286,719)
Member insurance services	(4,699,651)	(4,818,293)
Member meeting and training services	<u>(207,550)</u>	<u>(354,816)</u>
Total operating expenses	 (11,397,261)	 (11,758,279)
 Nonoperating revenues	 <u>1,091,028</u>	 <u>72,266</u>
 Change in net assets	 <u>\$ 635,208</u>	 <u>\$ (431,370)</u>

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

### **Management's Discussion and Analysis (*Unaudited*)**

#### **Description of Current and Expected Conditions**

Effective January 1, 2010 the Kentucky School Boards 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 administrative costs plus a percentage of premiums. The bonds for the Danville bond pool were fully redeemed as of July 15, 2010. The KLC Executive Board hired Jonathan "Jon" Steiner as KLC Executive Director/CEO effective November 1, 2010.

The management of KLC, Inc. 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 Inc.'s Financial Management**

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

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,582,032	\$ 5,948,562
Investments	4,418,724	3,939,913
Deposits held by trustee for debt service	-	68,997
Accounts receivable	1,168,689	444,647
Premiums receivable	82,401	87,177
Prepaid expenses and other assets	368,721	425,533
Due from related parties	<u>3,774,940</u>	<u>2,220,613</u>
<b>Total current assets</b>	12,395,507	13,135,442
<b>Fixed assets:</b>		
Land	674,175	674,175
Building	6,427,420	6,427,420
Furniture & Fixtures	2,804,207	2,762,691
Improvements	<u>4,250,569</u>	<u>4,188,718</u>
	14,156,371	14,053,004
Less accumulated depreciation	<u>(5,356,036)</u>	<u>(4,681,402)</u>
<b>Total fixed assets</b>	<u>8,800,335</u>	<u>9,371,602</u>
<b>Total assets</b>	<u>\$ 21,195,842</u>	<u>\$ 22,507,044</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Current maturities of bond payable	\$ 125,373	\$ 275,000
Accounts payable	149,404	85,793
Accrued liabilities	946,237	1,109,249
Deferred income/revenue	597,466	629,885
Due to related parties	<u>6,220,576</u>	<u>8,095,166</u>
<b>Total current liabilities</b>	8,039,056	10,195,093
Bond payable, net of current maturities	<u>4,174,627</u>	<u>3,965,000</u>
<b>Total liabilities</b>	12,213,683	14,160,093
<b>Net Assets</b>		
Invested in fixed assets net of related debt	4,500,335	5,131,602
Unrestricted	<u>4,481,824</u>	<u>3,215,349</u>
<b>Total net assets</b>	<u>8,982,159</u>	<u>8,346,951</u>
<b>Total liabilities and net assets</b>	<u>\$ 21,195,842</u>	<u>\$ 22,507,044</u>

See accompanying notes



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

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Operating revenues:</b>		
Administrative fee - KLCIS	\$ 3,795,712	\$ 3,801,856
Administrative fee - KLCWCT	1,924,289	2,288,144
Administrative fee - KMFC	741,721	1,153,726
Administrative fee - KLCUCRT	134,047	127,909
Administrative fee - KSBIT	588,371	-
Commissions	2,482,247	2,784,942
Member dues	449,500	448,532
Conference income	233,495	275,382
Premium finance revenue	155,913	170,869
Other	430,685	170,882
Publication income	5,461	32,401
	<u>10,941,441</u>	<u>11,254,643</u>
Operating expenses	<u>11,397,261</u>	<u>11,758,279</u>
<b>Operating loss</b>	(455,820)	(503,636)
<b>Nonoperating revenues (expenses):</b>		
Interest and investment income (loss)	587,521	(411,695)
Interest expense	(167,986)	(226,759)
Gain on sale of fixed assets	23,308	7,500
Net rental income	648,185	703,220
	<u>1,091,028</u>	<u>72,266</u>
<b>Total nonoperating revenue</b>	<u>1,091,028</u>	<u>72,266</u>
<b>Change in net assets</b>	635,208	(431,370)
<b>Net assets, beginning of year</b>	<u>8,346,951</u>	<u>8,778,321</u>
<b>Net assets, end of year</b>	<u>\$ 8,982,159</u>	<u>\$ 8,346,951</u>

See accompanying notes

**KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from members and affiliates	\$ 6,760,839	\$ 15,392,964
Cash paid to suppliers and employees	<u>(10,684,438)</u>	<u>(11,324,207)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>(3,923,599)</u>	<u>4,068,757</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Proceeds from draws on line of credit	4,850,000	4,741,904
Payments on line of credit	<u>(4,850,000)</u>	<u>(4,741,904)</u>
<b>Net cash provided by noncapital financing activities</b>	<u>-</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Capital expenditures	(101,339)	(264,498)
Proceeds from sale of fixed assets	11,942	11,520
Principal payments on bond payable	(4,240,000)	(265,000)
Proceeds from bond payable	4,300,000	-
Interest paid	<u>(167,986)</u>	<u>(226,759)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(197,383)</u>	<u>(744,737)</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale and maturity of investments	3,925,388	5,024,369
Interest and income (loss) on investments	585,078	(421,792)
Purchase of investments	(4,404,199)	(4,935,845)
Proceeds from rental activities	985,295	1,067,491
Cash paid to maintain rental property	<u>(337,110)</u>	<u>(364,271)</u>
<b>Net cash provided by investing activities</b>	<u>754,452</u>	<u>369,952</u>
Net change in cash and cash equivalents during the year	(3,366,530)	3,693,972
<b>Cash and cash equivalents, beginning of year</b>	<u>5,948,562</u>	<u>2,254,590</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 2,582,032</u>	<u>\$ 5,948,562</u>

See accompanying notes

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**

For the years ended June 30, 2010 and 2009

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

Operating loss	\$ (455,820)	\$ (503,636)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	665,274	595,491
Depreciation allocated as in-kind contribution	18,698	24,503
Amortization of employee supplemental retirement loans	2,443	18,388
Increase (decrease) in cash due to changes in:		
Accounts receivable	(724,042)	(189,411)
Premiums receivable	4,776	86,245
Prepaid expenses and other assets	125,809	(120,869)
Due from/to related parties	(3,428,917)	3,794,162
Accounts payable	63,611	(57,588)
Accrued liabilities	(163,012)	99,085
Deferred income/revenue	<u>(32,419)</u>	<u>322,387</u>
Net cash (used in) provided by operating activities	<u>\$ (3,923,599)</u>	<u>\$ 4,068,757</u>

See accompanying notes

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

#### Note A – Nature of Organization and Operations

The Kentucky League of Cities, Inc. and Subsidiaries (KLC, Inc.) 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, Inc. publishes a monthly newsletter and a weekly bulletin on the status of legislation. KLC, Inc.'s revenues are substantially comprised of fees earned for administration of entities related to KLC, Inc. 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, Inc. KLC, Inc. owns 100% of the outstanding common stock of KLCIA. 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, Inc. related entities.

Kentucky League of Cities Premium Finance Company (KLCPFC) was incorporated on March 26, 2003 by its sole stockholder KLC, Inc. KLC, Inc. owns 100% of the outstanding common stock of KLCPFC. KLC, Inc. capitalized KLCPFC with a \$200,000 transfer. KLCPFC was organized to finance insurance premiums for member cities. See Note F for further information on KLCPFC's activities.

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

The following entities are KLC, Inc. 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)

#### Note B – Summary of Significant Accounting Policies

1. **Estimates:** The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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, Inc. in the preparation of its consolidated financial statements.
2. **Reclassification:** Certain 2009 balance sheet and statement of cash flows items have been reclassified to conform with the 2010 presentation. Such reclassifications had no effect on results of operations or net assets.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--CONTINUED

June 30, 2010 and 2009

#### Note B – Summary of Significant Accounting Policies (Continued)

3. Basis of Presentation: KLC, Inc. 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, KLC, Inc. has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Therefore, KLC, Inc. 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.
4. Cash and Cash Equivalents: Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.
5. Investments: Investment securities consist of U.S. government agencies, 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.

6. 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 equipment	2-15 years
Building and building 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.

7. Income Taxes: The Internal Revenue Service (IRS) has ruled that the income of KLC, Inc. 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.
8. Deferred Income/Revenue: Deferred revenue consists of KLC, Inc. 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 deferred revenue related to members' dues was \$287,104 and \$176,416 as of June 30, 2010 and 2009, 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 (deferred) revenue until earned. Total unearned premiums as of June 30, 2010 and 2009 were \$92,085 and \$170,465, respectively. Deferred revenue also includes convention, administrative fees, advertising fees and rent received in advance. Total other deferred revenue for KLC, Inc. as of June 30, 2010 and 2009 was \$183,257 and \$242,644, respectively.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--CONTINUED

June 30, 2010 and 2009

#### Note B – Summary of Significant Accounting Policies (Continued)

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, 2010 and 2009 was \$35,020 and \$40,360, respectively.

#### Note C – Deposits and Investments

KLC, Inc. maintains its cash balances with a financial institution located in Central Kentucky. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Additionally, non-interest bearing accounts are fully insured by the FDIC. At June 30, 2010 KLC Inc. had no uninsured balances. At June 30, 2009, KLC, Inc. had uninsured balances of approximately \$670,000. Cash equivalents include investments in a money market fund that are not federally insured.

Deposits and investments held by KLC, Inc. as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 2,451,609	\$ 5,991,269
Money market mutual funds	<u>130,423</u>	<u>26,290</u>
Deposits and investments classified as cash and cash equivalents	<u>2,582,032</u>	<u>6,017,559</u>
U.S. government agencies	846,313	603,806
Corporate and foreign bonds	551,502	504,281
Bond and fixed income mutual funds	826,746	903,269
Equity mutual funds	847,193	876,810
Equity securities	<u>1,346,970</u>	<u>1,051,747</u>
Investments classified as investment securities	<u>4,418,724</u>	<u>3,939,913</u>
Total deposits and investments	<u>\$ 7,000,756</u>	<u>\$ 9,957,472</u>

Investment and interest revenue and gains for assets limited to use, cash equivalents, and other investments are comprised of the following for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Investment and interest revenue and gains:		
Interest and dividend income	\$ 122,259	\$ 128,335
Realized gains (losses) on sales of securities	49,356	(222,161)
Unrealized gains (losses) on securities	<u>415,906</u>	<u>(317,869)</u>
	<u>\$ 587,521</u>	<u>\$ (411,695)</u>

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--CONTINUED

June 30, 2010 and 2009

#### Note C – 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, Inc. 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, 2010, KLC was invested in several government agency bonds: Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Government National Mortgage Association. The bonds have AAA ratings. Additional investments include bond mutual funds which have the following ratings as of June 30, 2010:

AAA	\$	587,821
AA		49,023
A		73,367
Below A		<u>116,535</u>
	\$	<u>826,746</u>

##### Concentration of Credit Risk

During 2008 KLC, Inc. implemented an investment policy that limited investments in any single holding to no more than 5% of the market value of the account, as well as setting guidelines for the type and quality of investments. As of June 30, 2010 and 2009, KLC, Inc. was in compliance with this policy.

As of June 30, 2010 KLC, Inc. had the following investment maturities:

	Investment Maturities (in Years)		
	Less Than 1	1 - 5	Greater Than 5
U.S. government agencies	\$ -	\$ -	\$ 846,313
Corporate and foreign bonds	-	<u>56,007</u>	<u>495,495</u>
Total maturities	\$ -	\$ <u>56,007</u>	\$ <u>1,341,808</u>

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--CONTINUED

June 30, 2010 and 2009

#### Note D – Line of Credit

KLCPFC borrowed \$4,850,000 under a line of credit agreement with a related party, KLCUCRT. The line of credit carried an interest rate of 3.0% and expired on June 30, 2010. As of June 30, 2010, there were no outstanding borrowings on this line.

Beginning July 1, 2010, KLCPFC entered into a \$6,000,000 line of credit agreement with a non-related party financial institution. The line of credit carries an interest rate of 2.75% and matures on June 30, 2011. KLC, Inc. is a guarantee on the line of credit.

#### Note E – Bond Payable

On March 1, 2006, KLC, Inc. issued an adjustable rate, taxable 2006 series bond in the amount of \$5,000,000. On December 1, 2009, this bond payable was refinanced by three 15-year variable rate bonds. Repayment on these bonds began January 1, 2011. The interest rate on the bond as of June 30, 2010 was 0.30%. The bonds are included in bond pools that are administered by KLC, Inc. (see Note H). The bonds bear interest at variable rates based on the SIFMA municipal index. The bonds are subject to mandatorily sinking fund installment redemption requirements. In order to secure the loan, KLC, Inc. 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:	
2011	\$ 125,373
2012	255,905
2013	263,598
2014	271,369
2015	279,443
Thereafter	<u>3,104,312</u>
	<u>\$ 4,300,000</u>

In December 2009, KLC, Inc. terminated an interest swap agreement that was related to the refinanced bond debt. KLC, Inc. paid approximately \$100,000 to the interest rate swap provider which represented the difference between the fixed rate and the specified variable rate applicable to the outstanding principal of the bond at the termination date.

#### Note F – Premium Financing Activities

As mentioned in Note A to the consolidated financial statements, KLCPFC was organized to finance insurance premiums for member cities that purchase property, liability and workers compensation insurance from KLCIS and KLCWCT (the Insurance Companies), respectively. KLCPFC enters into short-term financing agreements with member cities who wish to finance their premiums over a period of time. The length of the financing contracts range from three to nine months and the finance charges range from 4.99% to 8.75% for 2010 and from 5.26% to 8.99% for 2009 depending on the dollar amount of the premium financed. KLCPFC also requires a 20% down payment on all amounts financed.



## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--CONTINUED

June 30, 2010 and 2009

#### **Note F – Premium Financing Activities (Continued)**

When a member signs a financing contract, KLC PFC recognizes a receivable from the member city and a payable to the Insurance Companies. Premium amounts financed are transferred on a monthly basis to the Insurance Companies. Should a member be cancelled or withdraw from the insurance plans, KLC PFC would receive the unearned amount of the premium from the Insurance Companies. KLC PFC recognizes premium finance revenue as earned based upon the terms of the contract. Total finance income for June 30, 2010 and 2009 was \$155,913 and \$170,869. Total premiums receivable as of June 30, 2010 and 2009 were \$82,401 and \$87,177. Total premiums owed to the Insurance Companies as of June 30, 2010 and 2009 were \$32,710 and \$343,426, respectively and are included within the due to related entities on the consolidated balance sheet.

#### **Note G – Employee Deferred Compensation Plan**

Prior to April 1994, KLC, Inc. offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 in which KLC, Inc. contributed 10% of the participant's annual salary. In April 1994, KLC, Inc. created a plan in accordance with Internal Revenue Code 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, Inc. made contributions to the 401(a) plan of 10% of the eligible participant's annual salary. KLC, Inc.'s previous contributions to the deferred compensation 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, Inc. 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 the Kentucky Revised Statute Section 61.645, the Board of Trustees 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, Inc. is required to contribute an actuarially determined rate. The current rate is 16.16% (13.5% for 2009) of the employee's total covered compensation. The contribution requirements of Plan members and KLC, Inc. are established and may be amended by the Kentucky Retirement System's Board of Trustees. During the years ended June 30, 2010 and 2009, KLC, Inc. contributed \$924,020 and \$813,524, respectively, to the retirement plan in effect.

The Board of Directors of KLC, Inc. voted to make loans to certain eligible employees in order that those employees could purchase five years of Nonqualified Service or "Airtime" in the CERS plan. These loans, which pay interest at a variable rate (3% as of June 30, 2009), are forgiven based on the completion of additional service to KLC, Inc. (see Note I).

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--CONTINUED

June 30, 2010 and 2009

#### Note H – Administration Fees and Net Assets

KLC, Inc. acts as administrator for several sponsored insurance funds. The Kentucky League of Cities Unemployment Compensation Reimbursement Trust (KLCUCRT) provides unemployment compensation coverage to KLC, Inc. members and pays KLC, Inc. an administration fee of \$7.00 per average full time employee covered, less expenses allocated to the KLCUCRT program. Kentucky League of Cities Insurance Services (KLCIS) operates various self-insurance programs for participating municipalities and pays KLC, Inc. an administration fee based on a percentage of earned premiums. In 1994, KLC, Inc. instituted the Kentucky League of Cities Workers' Compensation Trust (KLCWCT) for the purpose of creating and operating various self-insurance, insurance and investment trusts. KLC, Inc. provides substantially all operational, management and administrative services under an administrative agreement with KLCWCT. KLCWCT pays fees to KLC, Inc. based on a percentage of earned premiums.

Beginning January 1, 2010 KLC, Inc. provides substantially all of the operational, management and administrative services for the Kentucky School Boards Insurance Trust Workers Compensation Fund and Kentucky School Boards Insurance Trust Property and Liability Fund 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, 2010 and 2009 were \$1,078,000 and \$1,229,580, respectively.

KLC, in 1989, formed the Kentucky Municipal Finance Corporation (KMFC) for the purpose of issuing tax exempt bonds to finance or refinance member city projects. In 1989 the City of Danville, on KMFC's behalf, issued \$152 million in tax exempt bonds with the proceeds to be pooled and loaned to member cities. As administrator to the program, KLC receives an ongoing fee of .25% of the principal amount of the bonds outstanding. During 2009, the letter of credit provider of the Danville bond pool decided to redeem the \$152 million in outstanding tax exempt bonds. As of November 16, 2009, \$116 million of the bonds were redeemed. The remaining \$36 million of bonds are scheduled to be redeemed on July 15, 2010 which was completed.

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 \$400 million to finance or refinance member city projects. As the administrator to the program, KLC receives an ongoing fee of .25% of the outstanding balance of loans made out of the program. In limited instances KLC receives an upfront administrative fee instead of an on-going administrative fee. Any up-front fees are recognized into revenue evenly over a 10 year period.

The Board has set aside net assets for designated purposes as of June 30, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Supplemental retirement fund	\$200,000	\$200,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--CONTINUED

June 30, 2010 and 2009

**Note I – Due From/To Related Parties**

Related party receivables and payables included within KLC, Inc.'s consolidated balance sheet consist primarily of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
KLCIS accounts payable	\$ (6,220,576)	\$ (5,080,228)
KLCWCT accounts receivable (payable)	3,640,688	(670,696)
KLCUCRT accounts (payable) receivable	134,216	(126,072)
Employee supplemental retirement loans	-	2,443
NewCities Institute	<u>36</u>	<u>-</u>
Net due from (due to) related parties	<u>\$ (2,445,636)</u>	<u>\$ (5,874,553)</u>
KSBIT - WCF accounts receivable	\$ 378,049	\$ -
KSBIT - PCF accounts receivable	<u>320,315</u>	<u>-</u>
Included in accounts receivable	<u>\$ 698,364</u>	<u>\$ -</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--CONTINUED

June 30, 2010 and 2009

**Note J - Expenses**

Expenses for 2010 and 2009 by natural classification are as follows:

	2010	2009
Salaries	\$ 5,760,871	\$ 5,609,141
In-kind contributions to NewCities Institute, Inc.	678,846	824,634
Retirement	924,020	813,524
Employee benefits	724,942	744,054
Depreciation	683,972	619,994
Professional services	619,818	528,488
Other expenses	396,398	460,455
Payroll taxes	424,846	427,149
Meetings	275,122	395,058
Travel	113,966	384,382
Building management	235,236	260,210
Legislative services	168,605	117,961
Office supplies	66,983	112,233
Program and development	55,950	106,284
Telephones	88,321	102,336
Dues	60,204	77,979
KLCPFC finance expenses	29,805	61,706
Postage	32,562	58,435
Publications	31,664	33,345
Bond administration	25,130	20,911
	<u>\$ 11,397,261</u>	<u>\$ 11,758,279</u>

Expenses for 2010 and 2009 by functional classification are as follows:

	2010	2009
Administrative and general	\$ 4,789,438	\$ 4,623,112
Member insurance services	4,699,651	4,818,293
Legislative services	731,362	850,705
In-kind contributions to NewCities Institute, Inc.	678,846	824,634
Member financial services	290,414	286,719
Member meeting and training services	207,550	354,816
	<u>\$ 11,397,261</u>	<u>\$ 11,758,279</u>

**Note K – NewCities Institute, Inc.**

KLC, Inc. donated \$678,846 and \$824,634 in services to NewCities Institute, Inc. during 2010 and 2009, respectively. During 2009, NewCities Institute, Inc. repaid \$175,000 to KLC, Inc. KLC, Inc. recorded the payments as a reduction to in-kind contributions to NewCities Institute, Inc. in the statement of revenues, expenses and changes in net assets. There were no such payments budgeted or made during 2010. KLC Inc. has a service and license agreement with NewCities Institute, under the agreement, KLC, Inc. performs all administrative and general services for NewCities Institute, Inc. at no cost to the Institute. The agreement is set to expire on June 30, 2011. In February 2011 KLC decided not to renew the agreement beyond June 30, 2011.

**Supplementary Information**

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

Consolidating Balance Sheets

June 30, 2010

	Kentucky League of Cities, Inc.	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 1,964,105	\$ -	\$ 617,927	\$ -	\$ 2,582,032
Investments	4,718,724	-	-	(300,000)	4,418,724
Deposits held by trustee for debt service	-	-	-	-	-
Accounts receivable	957,405	211,284	-	-	1,168,689
Premiums receivable	-	-	82,401	-	82,401
Prepaid expenses and other assets	317,131	46,128	5,462	-	368,721
Due from related parties	3,807,650	26,187	-	(58,897)	3,774,940
<b>Total current assets</b>	<b>11,765,015</b>	<b>283,599</b>	<b>705,790</b>	<b>(358,897)</b>	<b>12,395,507</b>
Fixed assets:					
Land	674,175	-	-	-	674,175
Building	6,427,420	-	-	-	6,427,420
Furniture & Fixtures	2,763,580	19,227	21,400	-	2,804,207
Improvements	4,250,569	-	-	-	4,250,569
Less accumulated depreciation	14,115,744	19,227	21,400	-	14,156,371
	(5,321,264)	(13,372)	(21,400)	-	(5,356,036)
<b>Total fixed assets</b>	<b>8,794,480</b>	<b>5,855</b>	<b>-</b>	<b>-</b>	<b>8,800,335</b>
<b>Total assets</b>	<b>\$ 20,559,495</b>	<b>\$ 289,454</b>	<b>\$ 705,790</b>	<b>\$ (358,897)</b>	<b>\$ 21,195,842</b>

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

Consolidating Balance Sheets

June 30, 2010

	Kentucky League of Cities, Inc.	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
<b>Liabilities and net assets</b>					
Current liabilities:					
Current maturities of bond payable	\$ 125,373	\$ -	\$ -	\$ -	\$ 125,373
Accounts payable	95,279	49,083	5,042	-	149,404
Accrued liabilities	938,617	(380)	8,000	-	946,237
Deferred income/revenue	470,361	35,020	92,085	-	597,466
Due to related parties	6,246,763	-	32,710	(58,897)	6,220,576
<b>Total current liabilities</b>	<b>7,876,393</b>	<b>83,723</b>	<b>137,837</b>	<b>(58,897)</b>	<b>8,039,056</b>
Bond payable, net of current maturities	4,174,627	-	-	-	4,174,627
<b>Total liabilities</b>	<b>12,051,020</b>	<b>83,723</b>	<b>137,837</b>	<b>(58,897)</b>	<b>12,213,683</b>
<b>Net assets:</b>					
Invested in fixed assets net of related debt	4,494,480	5,855	-	-	4,500,335
Unrestricted	4,013,995	199,876	567,953	(300,000)	4,481,824
<b>Total net assets</b>	<b>8,508,475</b>	<b>205,731</b>	<b>567,953</b>	<b>(300,000)</b>	<b>8,982,159</b>
<b>Total liabilities and net assets</b>	<b>\$ 20,559,495</b>	<b>\$ 289,454</b>	<b>\$ 705,790</b>	<b>\$ (358,897)</b>	<b>\$ 21,195,842</b>

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

Consolidating Balance Sheets

June 30, 2009

	Kentucky League of Cities, Inc.	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Finance Company	Consolidating Entries	Consolidated Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 4,994,994	\$ -	\$ 953,568	\$ -	\$ 5,948,562
Investments	4,239,913	-	-	(300,000)	3,939,913
Deposits held by trustee for debt service	68,997	-	-	-	68,997
Accounts receivable	325,217	119,430	-	-	444,647
Premiums receivable	-	-	87,177	-	87,177
Prepaid expenses and other assets	327,723	97,410	400	-	425,533
Due from related parties	2,564,039	37,614	-	(381,040)	2,220,613
<b>Total current assets</b>	<b>12,520,883</b>	<b>254,454</b>	<b>1,041,145</b>	<b>(681,040)</b>	<b>13,135,442</b>
Fixed assets:					
Land	674,175	-	-	-	674,175
Building	6,427,420	-	-	-	6,427,420
Furniture & Fixtures	2,722,064	19,227	21,400	-	2,762,691
Improvements	4,188,718	-	-	-	4,188,718
Less accumulated depreciation	14,012,377	19,227	21,400	-	14,053,004
	(4,650,533)	(9,469)	(21,400)	-	(4,681,402)
<b>Total fixed assets</b>	<b>9,361,844</b>	<b>9,758</b>	<b>-</b>	<b>-</b>	<b>9,371,602</b>
<b>Total assets</b>	<b>\$ 21,882,727</b>	<b>\$ 264,212</b>	<b>\$ 1,041,145</b>	<b>\$ (681,040)</b>	<b>\$ 22,507,044</b>



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

Consolidating Balance Sheets

June 30, 2009

	Kentucky League of Cities, Inc.	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
<b>Liabilities and net assets</b>					
Current liabilities:					
Current maturities of bond payable	\$ 275,000	\$ -	\$ -	\$ -	\$ 275,000
Accounts payable	89,539	(5,405)	1,659	-	85,793
Accrued liabilities	1,101,249	-	8,000	-	1,109,249
Deferred income/revenue	419,060	40,360	170,465	-	629,885
Due to related parties	8,132,780	-	343,426	(381,040)	8,095,166
<b>Total current liabilities</b>	<b>10,017,628</b>	<b>34,955</b>	<b>523,550</b>	<b>(381,040)</b>	<b>10,195,093</b>
Bond payable, net of current maturities	3,965,000	-	-	-	3,965,000
<b>Total liabilities</b>	<b>13,982,628</b>	<b>34,955</b>	<b>523,550</b>	<b>(381,040)</b>	<b>14,160,093</b>
<b>Net assets:</b>					
Invested in fixed assets net of related debt	5,121,844	9,758	-	-	5,131,602
Unrestricted	2,778,255	219,499	517,595	(300,000)	3,215,349
<b>Total net assets</b>	<b>7,900,099</b>	<b>229,257</b>	<b>517,595</b>	<b>(300,000)</b>	<b>8,346,951</b>
<b>Total liabilities and net assets</b>	<b>\$ 21,882,727</b>	<b>\$ 264,212</b>	<b>\$ 1,041,145</b>	<b>\$ (681,040)</b>	<b>\$ 22,507,044</b>

# KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

## Consolidating Statements of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2010

Operating Revenues:	Kentucky League of Cities, Inc.	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
Administrative fee - KLCIS	\$ 3,795,712	\$ -	\$ -	\$ -	\$ 3,795,712
Administrative fee - KLCWCT	1,924,289	-	-	-	1,924,289
Administrative fee - KMFC	741,721	-	-	-	741,721
Administrative fee - KLCUCRT	134,047	-	-	-	134,047
Administrative fee - Financial services	75,000	-	-	(75,000)	-
Administrative fee - KSBIT	493,980	94,391	-	-	588,371
Commissions	2,492,420	2,482,248	-	(2,492,421)	2,482,247
Member dues	449,500	-	-	-	449,500
Conference income	233,495	-	-	-	233,495
Premium finance revenue	-	-	155,913	-	155,913
Other	111,575	307,083	12,027	-	430,685
Publication income	5,461	-	-	-	5,461
Total operating revenues	10,457,200	2,883,722	167,940	(2,567,421)	10,941,441
Operating expenses	10,937,892	2,908,051	118,739	(2,567,421)	11,397,261
Operating (loss) income	(480,692)	(24,329)	49,201	-	(455,820)
Nonoperating revenues (expenses):					
Interest and investment gain	585,561	803	1,157	-	587,521
Interest expense	(167,986)	-	-	-	(167,986)
Gain on sale of fixed assets	23,308	-	-	-	23,308
Net rental income	648,185	-	-	-	648,185
Total nonoperating (expenses) revenues	1,089,068	803	1,157	-	1,091,028
Change in net assets	608,376	(23,526)	50,358	-	635,208
Net assets, beginning of year	7,900,099	229,257	517,595	(300,000)	8,346,951
Net assets, end of year	\$ 8,508,475	\$ 205,731	\$ 567,953	\$ (300,000)	\$ 8,982,159

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

**Consolidating Statements of Revenues, Expenses and Changes in Net Assets**

For the Year Ended June 30, 2009

	Kentucky League of Cities, Inc.	Kentucky League of Cities Insurance Agency	Kentucky League of Cities Premium Finance Company	Consolidating Entries	Consolidated Total
<b>Operating Revenues:</b>					
Administrative fee - KLCIS	\$ 3,801,856	\$ -	\$ -	\$ -	\$ 3,801,856
Administrative fee - KLCWCT	2,288,144	-	-	-	2,288,144
Administrative fee - KMFC	1,153,726	-	-	-	1,153,726
Administrative fee - KLCUCRT	127,909	-	-	-	127,909
Administrative fee - Financial services	75,000	-	-	(75,000)	-
Commissions	2,645,701	2,784,942	-	(2,645,701)	2,784,942
Member dues	448,532	-	-	-	448,532
Conference income	275,382	-	-	-	275,382
Premium finance revenue	-	-	170,869	-	170,869
Other	94,970	63,356	12,556	-	170,882
Publication income	32,401	-	-	-	32,401
<b>Total operating revenues</b>	<b>10,943,621</b>	<b>2,848,298</b>	<b>183,425</b>	<b>(2,720,701)</b>	<b>11,254,643</b>
<b>Operating expenses</b>	<b>11,483,463</b>	<b>2,845,846</b>	<b>149,671</b>	<b>(2,720,701)</b>	<b>11,758,279</b>
<b>Operating (loss) income</b>	<b>(539,842)</b>	<b>2,452</b>	<b>33,754</b>	<b>-</b>	<b>(503,636)</b>
<b>Nonoperating revenues (expenses):</b>					
Interest and investment loss	(414,805)	934	2,176	-	(411,695)
Interest expense	(226,759)	-	-	-	(226,759)
Gain on sale of fixed assets	7,500	-	-	-	7,500
Net rental income	703,220	-	-	-	703,220
<b>Total nonoperating (expenses) revenues</b>	<b>69,156</b>	<b>934</b>	<b>2,176</b>	<b>-</b>	<b>72,266</b>
<b>Change in net assets</b>	<b>(470,686)</b>	<b>3,386</b>	<b>35,930</b>	<b>-</b>	<b>(431,370)</b>
<b>Net assets, beginning of year</b>	<b>8,370,785</b>	<b>225,871</b>	<b>481,665</b>	<b>(300,000)</b>	<b>8,778,321</b>
<b>Net assets, end of year</b>	<b>\$ 7,900,099</b>	<b>\$ 229,257</b>	<b>\$ 517,595</b>	<b>\$ (300,000)</b>	<b>\$ 8,346,951</b>



Mountjoy  
Chilton  
Medley

**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**

To the Board of Directors of  
Kentucky League of Cities, Inc. and Subsidiaries

We have audited the financial statements of Kentucky League of Cities, Inc. and Subsidiaries as of and for the year ended June 30, 2010, and have issued our report thereon dated March 6, 2011. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Kentucky League of Cities, Inc. and Subsidiaries' 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 Kentucky League of Cities, Inc. and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kentucky League of Cities, Inc. and Subsidiaries' 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Kentucky League of Cities, Inc. and Subsidiaries' financial statements are free of material misstatements, 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*.

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175 East Main Street  
Suite 200  
Lexington, KY 40507

859.514.7800 Phone  
859.514.7805 Fax  
www.mcmcpa.com

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Frankfort  
Bowling Green

We noted certain matters that we reported to management of Kentucky League of Cities, Inc. and Subsidiaries in a separate letter dated March 6, 2011.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mountjoy Chilton Medley LLP*

Lexington, Kentucky  
March 6, 2011