

**KENTUCKY LEAGUE OF CITIES
UNEMPLOYMENT COMPENSATION
REIMBURSEMENT TRUST
Financial Statements**

*Years Ended June 30, 2016 and 2015
with Report of Independent Auditors*

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky League of Cities Unemployment Compensation Reimbursement Trust (the Trust) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 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 Comptroller General of United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
Kentucky League of Cities Unemployment Compensation Reimbursement Trust
Report of Independent Auditors, continued

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, 2016 and 2015, and the respective changes in financial position and 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 3 through 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2016 on our consideration of the Trust'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 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* in considering the Trust's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

December 8, 2016
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, 2016. 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 position on page 5 provides information about the Trust as a whole.

Statements of Net Position

Table 1 shows all of the assets and liabilities of the Trust and is presented on the accrual basis. The total net position increased \$569,076 for the current fiscal year, compared to the increase of \$1,263,043 during the prior fiscal year. Current year net position increased primarily due to the reduction in benefit payments. Also, members received \$167,878 in dividend payments in the current year. Please see additional information included under Statements of Revenues, Expenses and Changes in Net Position.

Table 1
Net Position

	<u>2016</u>	<u>2015</u>
Cash and investments	\$ 7,818,216	\$ 7,010,374
Other assets	<u>404,741</u>	<u>633,610</u>
Total assets	8,222,957	7,643,984
Claims payable	196,894	188,984
Other liabilities	<u>26,004</u>	<u>24,017</u>
Total liabilities	<u>222,898</u>	<u>213,001</u>
Total net position	<u>\$ 8,000,059</u>	<u>\$ 7,430,983</u>

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

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 Trust and is also presented on the accrual basis. Interest and investment income increased \$226,865 or 309.3% from the prior fiscal year, primarily due to an increase in market conditions. Benefit payments decreased \$68,523 or 7.7% for the current fiscal year as unemployment trends continue to improve.

Table 2
Change in Net Position

Year ended June 30,	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 1,443,737	\$ 2,411,330
Investment and investment income, net of investment expenses	<u>300,221</u>	<u>73,356</u>
Total revenues	1,743,958	2,484,686
Benefit payments	818,139	886,662
Operating expenses	<u>188,865</u>	<u>193,578</u>
Total expenses	<u>1,007,004</u>	<u>1,080,240</u>
Change in net position	\$ <u>736,954</u>	\$ <u>1,404,446</u>

Description of Current and Expected Conditions

Benefits payments are expected to continue to remain low with continued economic focus on improving 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 the 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 Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 559,989	\$ 266,351
Investment securities, at fair value	7,258,227	6,744,023
Accrued investment income	38,138	52,483
Receivable from participants	360,856	579,464
Prepays	<u>5,747</u>	<u>1,663</u>
Total assets	8,222,957	7,643,984
Liabilities		
Payable to Commonwealth of Kentucky	196,894	188,984
Payable to related entity	-	17
Other liabilities	<u>26,004</u>	<u>24,000</u>
Total liabilities	<u>222,898</u>	<u>213,001</u>
Net Position		
Net position - unrestricted	<u>\$ 8,000,059</u>	<u>\$ 7,430,983</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Participant deposits	\$ 1,419,624	\$ 2,392,749
Reimbursement of participants' deficit balances	<u>24,113</u>	<u>18,581</u>
Total operating revenues	1,443,737	2,411,330
Operating expenses:		
Benefit payments	818,139	886,662
Other operating expenses	<u>188,865</u>	<u>193,578</u>
Total operating expenses	<u>1,007,004</u>	<u>1,080,240</u>
Operating income	436,733	1,331,090
Nonoperating revenue:		
Interest and investment income, net of investment expenses	<u>300,221</u>	<u>73,356</u>
Change in net position	736,954	1,404,446
Net position, beginning of year	7,430,983	6,167,940
Dividends to members	<u>(167,878)</u>	<u>(141,403)</u>
Net position, end of year	<u>\$ 8,000,059</u>	<u>\$ 7,430,983</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Premiums collected	\$ 1,662,345	\$ 2,513,605
Benefits paid	(810,229)	(884,820)
Other (payments) proceeds	<u>(190,962)</u>	<u>477,569</u>
Net cash provided by operating activities	661,154	2,106,354
Cash flows from capital and related financing activities:		
Trust dividends paid	<u>(167,878)</u>	<u>(141,403)</u>
Net cash used in capital and related financing activities	(167,878)	(141,403)
Cash flows from investing activities:		
Purchase of investments	(6,579,411)	(9,006,995)
Proceeds from maturity of investments	-	350,000
Proceeds from sale of investments	6,218,856	6,210,572
Interest and dividends received	<u>160,917</u>	<u>157,115</u>
Net cash used in investing activities	<u>(199,638)</u>	<u>(2,289,308)</u>
Net increase (decrease) in cash and cash equivalents	293,638	(324,357)
Cash and cash equivalents, beginning of year	<u>266,351</u>	<u>590,708</u>
Cash and cash equivalents, end of year	\$ <u>559,989</u>	\$ <u>266,351</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 436,733	\$ 1,331,090
Increase (decrease) in cash due to changes in:		
Receivable from participants	218,608	102,275
Prepays	(4,084)	(1,663)
Receivable from related entities	-	670,293
Payable to Commonwealth of Kentucky	7,910	1,842
Payable to related entity	(17)	17
Other liabilities	<u>2,004</u>	<u>2,500</u>
Net cash provided by operating activities	\$ <u>661,154</u>	\$ <u>2,106,354</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 both June 30, 2016 and 2015, participation in the Trust included 307 members.

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. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Therefore, the Trust follows GASB pronouncements and all Financial Accounting Standards Board and predecessor boards' pronouncements 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 December 8, 2016, 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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 559,989	\$ 266,351
Investment securities:		
U.S. government agencies and municipal obligations	1,971,086	2,194,693
Corporate and foreign bonds	2,625,128	3,654,762
Fixed income equity mutual funds	<u>2,662,013</u>	<u>894,568</u>
Total investment securities	<u>7,258,227</u>	<u>6,744,023</u>
Total cash, cash equivalents, and investment securities	<u>\$ 7,818,216</u>	<u>\$ 7,010,374</u>

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

3. Deposits and Investments, continued

As of June 30, 2016, the Trust had the following investment maturities in years:

	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. government agencies and municipal obligations	\$ 350,315	\$ -	\$ 1,130,391	\$ 490,380
Corporate and foreign bonds	<u>-</u>	<u>1,153,626</u>	<u>1,222,979</u>	<u>248,523</u>
Total maturities	<u>\$ 350,315</u>	<u>\$ 1,153,626</u>	<u>\$ 2,353,370</u>	<u>\$ 738,903</u>

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

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 191,292	\$ 147,984
Realized (losses) gains on sales of securities	(12,659)	55,998
Unrealized gains (losses) on securities	153,648	(107,321)
Investment expenses	<u>(32,060)</u>	<u>(23,305)</u>
	<u>\$ 300,221</u>	<u>\$ 73,356</u>

Credit Risk

As of June 30, 2016, 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, 2016:

A	\$ 1,646,357
AA	1,389,099
AAA	513,015
N/A	<u>1,047,743</u>
	<u>\$ 4,596,214</u>

Custodial Credit Risk - Deposits

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

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

3. Deposits and Investments, continued

Concentration of Credit Risk

The Trust has a concentration of credit risk in that 9% and 5% of total investments were invested in U.S. Treasury Notes and Federal National Mortgage Association bonds, respectively. The amount invested in U.S. Treasury Notes and Federal National Mortgage Association bonds as of June 30, 2016 was \$711,375 and \$387,065, respectively.

Fair Value

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that GAAP requires or permits in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quotes prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

All of the Trust's investments are actively traded and categorized as Level 1 investments in the fair value hierarchy.

4. Receivable from Participants

Amounts receivable from participants consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Deposits for the three-month period ended June 30	\$ 345,540	\$ 576,778
Deficit balance reimbursements for the three-month period ended June 30	<u>15,316</u>	<u>2,686</u>
Total receivable from participants	<u>\$ 360,856</u>	<u>\$ 579,464</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.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

5. Participant Deposits

Participants deposit to the Trust a percentage of the first \$9,900 and \$9,600 in annual wages paid to each of their covered employees for the years ended June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, the deposit percentage for each participant ranged from 0% to 13% and 0% to 9.25%, respectively. The deposit percentage is based upon each participant's 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 Equifax, Inc. for unemployment compensation claims management services. Notification of payments due are submitted by the Commonwealth to Equifax, Inc. who reviews the claims for validity and initiates a protest if applicable. Claims approved for payment by Equifax, Inc. are then reported to the Trust and charged to the respective participant's account. For the years ended June 30, 2016 and 2015, the fee for this service was \$12,458 and \$12,095 per quarter, subject to a 3% increase each January 1 and July 1. This fee is charged to the participants' accounts in equal quarterly installments. Service bureau fees were \$49,107 and \$47,677 for years ended June 30, 2016 and 2015, respectively.

7. Related Party Transactions

The following entities are the Trust's related entities:

- Kentucky Bond Corporation (KBC)
- Kentucky League of Cities (KLC)
- Kentucky League of Cities Funding Trust (KLCFT)
- Kentucky League of Cities Insurance Agency (KLCIA)
- Kentucky League of Cities Investment Pool (KLCIP)
- Kentucky League of Cities Premium Finance Company (KLCPFPC)
- Kentucky League of Cities Insurance Services (KLCIS)
- Kentucky League of Cities Workers Compensation Trust (KLCWCT)
- Kentucky Local Government Health Trust (KLGHT)

During both the years ended June 30, 2016 and 2015, 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 \$120,344 and \$119,434 for the years ended June 30, 2016 and 2015, respectively.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

7. Related Party Transactions, continued

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

	<u>2016</u>	<u>2015</u>
KLCWCT accounts payable	\$ <u> - </u>	\$ <u> 17 </u>
Total payable to related entities	\$ <u> - </u>	\$ <u> 17 </u>

8. Trust Dividends

The Board of Trustees authorized Trust dividends to participants in the amount of \$167,878 and \$141,403 for the years ended June 30, 2016 and 2015, respectively.

9. Other Operating Expenses

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

	<u>2016</u>	<u>2015</u>
KLC administrative fees	\$ <u> 120,344 </u>	\$ <u> 119,434 </u>
Service bureau fees	<u> 49,107 </u>	<u> 47,677 </u>
Professional fees	<u> 14,504 </u>	<u> 13,500 </u>
Actuarial fees	<u> - </u>	<u> 4,000 </u>
Other expenses	<u> 4,910 </u>	<u> 8,967 </u>
Total other operating expenses	\$ <u> 188,865 </u>	\$ <u> 193,578 </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 Trustees
Kentucky League of Cities Unemployment Compensation Reimbursement Trust
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 financial statements of Kentucky League of Cities Unemployment Compensation Reimbursement Trust (Trust) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated December 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Trust'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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trusts' 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trusts' 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 8, 2016
Lexington, Kentucky

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Section I - Summary of Independent Auditors' Results:

Financial Statements:

- a. The type of report issued on the financial statements: **Unmodified opinion**
- b. Internal control over financial reporting:
 - Material weaknesses: **No**
 - Significant deficiencies that are not considered to be material weaknesses: **None noted**
- c. Noncompliance which is material to the financial statements: **No**

Section II - Financial Statement Findings:

-none-