

**KENTUCKY BAR ASSOCIATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

For the Years Ended  
June 30, 2016 and June 30, 2015

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## INDEPENDENT AUDITORS' REPORT

To the Board of Governors  
Kentucky Bar Association  
Frankfort, Kentucky

We have audited the accompanying financial statements of Kentucky Bar Association (a non-profit organization) which comprise the statements of financial position as of June 30, 2016 and June 30, 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

### **Auditors' 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. 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Bar Association as of June 30, 2016 and June 30, 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained on pages 17 through 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Rudler, PSC*

Ft. Wright, Kentucky  
January 9, 2017

**KENTUCKY BAR ASSOCIATION**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2016 and June 30, 2015

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>ASSETS:</b>		
Cash	\$ 2,016,760	\$ 1,767,851
Certificate of Deposit	60,421	563,509
Investments	7,978,800	7,485,172
Accounts receivable	92,975	88,306
Due from affiliate	67,160	72,408
Interest receivable	17,491	17,941
Prepaid expenses	76,997	69,624
Total Current Assets	10,310,604	10,064,811
Property, building and equipment, net	3,122,532	3,130,641
<b>TOTAL ASSETS</b>	<b>\$ 13,433,136</b>	<b>\$ 13,195,452</b>
<b>LIABILITIES:</b>		
Accounts payable	\$ 143,726	\$ 315,764
Accrued expenses	360,934	405,714
Current maturities of bonds payable	135,000	125,000
Total Current Liabilities	639,660	846,478
Deferred revenue	14,669	14,366
Bonds payable, less current maturities	455,000	590,000
Total Liabilities	1,109,329	1,450,844
<b>NET ASSETS:</b>		
Unrestricted -		
Board designated	303,436	362,682
Undesignated	12,020,371	11,381,926
	12,323,807	11,744,608
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 13,433,136</b>	<b>\$ 13,195,452</b>

The accompanying notes are an integral part of these financial statements.

**KENTUCKY BAR ASSOCIATION**  
**STATEMENTS OF ACTIVITIES**  
For the Years Ended June 30, 2016 and June 30, 2015

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>UNRESTRICTED NET ASSETS:</b>		
<b>REVENUE AND SUPPORT:</b>		
Membership dues	\$ 4,787,241	\$ 4,729,706
Other dues	177,252	176,468
Investment income/realized gain(loss)	132,790	944,781
Sections income	164,788	153,614
Reimbursement of costs	135,875	97,277
Attorney Advertising Commission	61,400	115,491
Pro Hac Vice	201,080	202,508
Publications/Communications	70,826	83,260
Conventions and Conferences	448,534	477,503
Rent of building	9,600	9,600
Net change in the fair value of investments	(23,765)	(787,177)
Other revenue and support	579,462	581,002
Total Revenue and Support	6,745,083	6,784,033
<b>EXPENSES:</b>		
Program Services:		
Sections	156,862	160,591
Board of Governors, Officers, Committees	108,130	121,970
Disciplinary/Unauthorized practice	1,738,357	1,688,514
Disciplinary Clerk's Office	89,786	100,880
Publications/Communications	286,989	295,739
Conventions and Conferences	406,303	383,231
Attorney Advertising Commission	91,931	91,915
Lawyers Assistance Program	206,955	205,358
Continuing Legal Education	1,069,508	1,050,641
Client Security	179,445	27,536
Bar Center	322,011	286,746
Total Program Services	4,656,277	4,413,121
Supporting Services:		
Management and General	1,509,607	1,412,525
Total Expenses	6,165,884	5,825,646
<b>INCREASE (DECREASE) IN NET ASSETS</b>	579,199	958,387
<b>NET ASSETS AT BEGINNING OF YEAR</b>	11,744,608	10,786,221
<b>NET ASSETS AT END OF YEAR</b>	\$ 12,323,807	\$ 11,744,608

The accompanying notes are an integral part of these financial statements.

**KENTUCKY BAR ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2016 and June 30, 2015

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 579,199	\$ 958,387
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	155,205	133,102
Loss on disposal of property and equipment	5,159	0
Net (increase) decrease in the fair value of investments	23,765	787,176
Realized (gains)/ losses on sales of investments	44,837	(798,327)
(Increase) decrease in operating assets		
Accounts receivable	(4,669)	4,306
Due from affiliate	5,248	(4,804)
Prepaid expenses	(7,373)	20,969
Interest receivable	450	(10,792)
Increase (decrease) in operating liabilities		
Accounts payable	(172,038)	44,603
Accrued expenses	(44,780)	86,368
Deferred revenue	303	(9,098)
	<b>585,306</b>	<b>1,211,890</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(152,255)	(228,076)
Purchase of investments	(937,416)	(3,037,072)
Proceeds from sale of investments	878,274	2,999,815
	<b>(211,397)</b>	<b>(265,333)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long term debt	(125,000)	(120,000)
	<b>(125,000)</b>	<b>(120,000)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>248,909</b>	<b>826,557</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>1,767,851</b>	<b>941,294</b>
<b>CASH, END OF YEAR</b>	<b>\$ 2,016,760</b>	<b>\$ 1,767,851</b>

The accompanying notes are an integral part of these financial statements.

**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The statements presented are those of the Kentucky Bar Association (KBA). This is an agency of the judicial branch of the Commonwealth of Kentucky. The KBA implements, administers and enforces Kentucky Supreme Court Rules regarding the discipline and education of the lawyers of Kentucky and is the professional association for the practice of law in Kentucky.

Fund Accounting

The KBA is an agency that provides various services which are maintained in accounts in accordance with the principles and practices of “fund accounting”. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives as specified, in accordance with regulations, restrictions, or limitations imposed by sources outside the organization, or in accordance with directions issued by the governing board. The assets, liabilities, and net assets of the Association are reported in six self-balancing fund groups, a description of which is as follows:

General Fund The General Fund is engaged in the administrative, general and disciplinary functions of the Association, primarily dealing with Kentucky attorneys and the practice of law within the Commonwealth of Kentucky.

Continuing Legal Education Fund The Continuing Legal Education Fund administers the continuing legal education rules of the Supreme Court, which includes mandatory continuing legal education attorney records, Kentucky Law Updates and New Lawyers’ Skills Programs.

Client Security Fund The Client Security Fund provides assistance to individuals who have suffered financial loss due to misappropriation of clients’ funds by members of the KBA. During the 2015 – 2016 fiscal year, 35 new claims were received alleging losses totaling approximately \$244,698. During the 2014 – 2015 fiscal year, 42 new claims were received alleging losses totaling approximately \$966,967.

The Board of Governors has established Fund claim limits of \$50,000 per claim and \$150,000 aggregate claims against one attorney; accordingly, the total exposure was approximately \$88,222 for the year ended June 30, 2016 and \$435,257 for the year ended June 30, 2015.

Bar Center Headquarters Trustees Fund The Bar Center Headquarters Trustees Fund acts for the KBA in all matters incidental to the ownership, management, and control of the Bar Center building.

Bar Center Fund The Capital Construction Fund was merged with The Bar Center Fund for the furnishing and maintenance of the Bar Center building located in Frankfort, Kentucky.

Donated Legal Services Fund The Donated Legal Services Fund accounts for dues allocated for pro bono efforts.



**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

Basis of Financial Statements

The KBA prepares its financial statements on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following accounting policies are presented to facilitate the understanding of information presented in the financial statements.

Presentation

The financial statements are presented in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the KBA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are not subject to donor-imposed restrictions and may be designated for specific purposes by action of the Board of Governors. Temporarily restricted net assets are subject to donor-imposed restrictions that can be fulfilled by actions of the organization pursuant to those restrictions or that expire by the passage of time. Permanently restricted net assets are subject to donor-imposed restrictions that they be maintained permanently. The KBA has no temporarily or permanently restricted net assets as of June 30, 2016 and June 30, 2015.

Cash and Cash Equivalents

The KBA considers cash in operating bank accounts to be cash and cash equivalents. Money Market accounts in investments are not included in cash and cash equivalents.

Supplemental Disclosure of Cash Flow Information:	<u>2016</u>	<u>2015</u>
Cash paid during the year for interest	<u>\$35,750</u>	<u>\$41,750</u>
Cash paid during the year for unrelated business tax	<u>\$ 959</u>	<u>\$ 858</u>

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note K for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Association's gains and losses on investments bought and sold as well as held during the year.

Fixed Assets

Fixed assets are stated at cost. Major renewals and improvements are charged to the fixed asset accounts. Expenditures greater than \$500 and which increase values or extend useful lives of the respective assets, are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. At the time fixed assets are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

Revenue

The major source of revenue is membership dues. All members are required to pay dues to the KBA, with the exception of those members whose status is Senior Counselor, Senior Retired Inactive, and Disabled Inactive. Dues are determined annually and are recognized as revenues when assessed because they are measurable and are collectible within the current period.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial. Therefore, there was no allowance for doubtful accounts recorded in the financial statements at June 30, 2016.

Depreciation

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. Depreciation expense was \$155,205 for the year ended June 30, 2016 and \$133,102 for the year ended June 30, 2015. Estimated useful lives for purposes of depreciation are as follows:

Bar Center building	50 years
Furniture, fixtures and equipment	5-10 years

Pension Plan

The Association participates as members of the Kentucky Employee Retirement System (KERS), a cost sharing, multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age sixty-five, or after less than twenty-seven years of service. The plan also provides for disability retirement, death and survivor benefits and medical insurance.

The Kentucky Employee Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601 or by calling (502)564-4646.

Funding for the plan is provided by eligible employees who contribute 5% of their salary, 6% for employees hired after September 1, 2008, through payroll deductions and the Association, which contributed 38.77% of current eligible employee's salary to the KERS during the fiscal year June 30, 2016 and 38.77% during the fiscal year June 30, 2015. The KBA's contribution rates are determined by Kentucky Revised Statute and the Board of Trustees of the Kentucky Retirement Systems biennium. The KBA's contributions totaled \$927,103 for the fiscal year ending June 30, 2016 and \$901,207 for the fiscal year ending June 30, 2015.

**NOTE B – INVESTMENTS**

Investments are administered utilizing the services of the trust department of a bank. These investments are Level 1 investments, which include investments that are uninsured and unregistered held by the counterparty's trust department or agent in the KBA's name. Investment service fees of

**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

approximately \$23,153 have been included in bank and investment fees in the statement of activities for the year ended June 30, 2016 and \$21,848 for the year ended June 30, 2015. All investments have been classified as current assets in the accompanying statement of financial position since proceeds would be available to the KBA upon request to the trust department of the bank.

A summary of investments at June 30, 2016 is as follows:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains/Losses</u>
KBA Long Term Portfolio -			
Money Market Funds	\$ 90,834	\$ 90,834	\$ 0
Fixed income	1,804,875	1,725,628	(79,247)
Equities	3,230,451	3,423,705	193,254
	<u>5,126,160</u>	<u>5,240,167</u>	<u>114,007</u>
KBA Short Term Portfolio -			
Money Market Funds	1,189,098	1,189,098	0
Fixed income	1,562,401	1,549,535	(12,866)
	<u>2,751,499</u>	<u>2,738,633</u>	<u>(12,866)</u>
Total	<u>\$ 7,877,659</u>	<u>\$ 7,978,800</u>	<u>\$ 101,141</u>

A summary of investments at June 30, 2015 is as follows:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains/Losses</u>
KBA Long Term Portfolio -			
Money Market Funds	\$ 253,080	\$ 253,080	\$ 0
Fixed income	1,571,581	1,512,632	(58,949)
Equities	3,276,824	3,462,442	185,618
	<u>5,101,485</u>	<u>5,228,154</u>	<u>126,669</u>
KBA Short Term Portfolio -			
Money Market Funds	1,035,015	1,035,015	0
Fixed income	1,223,765	1,222,003	(1,762)
	<u>2,258,780</u>	<u>2,257,018</u>	<u>(1,762)</u>
Total	<u>\$ 7,360,265</u>	<u>\$ 7,485,172</u>	<u>\$ 124,907</u>

Investment return is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 177,627	\$ 146,455
Realized gains(losses)	(44,837)	798,326
Change in fair value	<u>(23,765)</u>	<u>(787,177)</u>
	<u>\$ 109,025</u>	<u>\$ 157,604</u>

**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

**NOTE C – INCOME TAX STATUS**

The KBA is not a private foundation and is exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954, except on certain unrelated business income, which is not material. The KBA believes it is no longer subject to income tax examinations for the fiscal years prior to June 30, 2013. There are currently no audits for any tax periods in progress.

**NOTE D – LEASES**

The KBA entered into 6 leases for office equipment during April 2015 and 1 lease during October 2015. The leases are all for 48 months under non-cancelable operating leases expiring in April 2019 and October 2019, respectively. The monthly payments range from \$130 to \$539 a month. The total monthly payment for the leased office equipment is \$2,695.

The KBA entered into a lease for a mailing system during December 2014. The lease is for 60 months under a non-cancelable operating leases expiring in November 2019 with a monthly payment of \$540.

The KBA incurred approximately \$32,178 of lease-related expense in the year ended June 30, 2016 and \$34,014 in the year ended June 30, 2015. These leases are classified as operating with minimum rental commitments as follows:

<b>Year Ending, June 30,</b>		
2017	\$	32,343
2018		32,343
2019		26,785
2020		4,988
2021		<u>0</u>
	<b>\$</b>	<b><u>96,459</u></b>

**NOTE E – LONG-TERM DEBT**

Long-term debt is comprised of the following as of June 30,

	<b><u>2016</u></b>	<b><u>2015</u></b>
2.0% - 5.0% Kentucky Bar Center Headquarters Project Bonds Series 2003, payable with semi-annual interest payments and annual principal payments, with final payment due April 1, 2021	\$ 590,000	\$ 715,000
Less current portion	<u>(135,000)</u>	<u>(125,000)</u>
	<b><u>\$ 455,000</u></b>	<b><u>\$ 590,000</u></b>

**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

During October 2002, the KBA issued \$2,390,000 in City of Frankfort, Kentucky Governmental Project Revenue Obligation Bonds with rates of 2.0% - 5.0%. In order to retire the revenue bonds, the KBA is required to make deposits to sinking funds in amounts sufficient to meet the principal and interest payments due for the required semi-annual installments. The bonds are secured by membership dues revenue. In compliance with bond requirements the KBA maintains a separate bond sinking fund cash account included in cash and cash equivalents on the statement of financial position. During the year ended June 30, 2014, KBA was authorized by the Judicial Branch of the Commonwealth of Kentucky to retire \$500,000 of the City of Frankfort, Kentucky Governmental Project Revenue Obligation Bonds.

The principal and interest repayment requirements relating to the above long-term debt at June 30, 2016 are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 135,000	29,500	164,500
2018	140,000	22,750	162,750
2019	145,000	15,750	160,750
2020	155,000	8,500	163,500
2021	15,000	7,500	22,500
Thereafter	0	0	0
	<u>\$ 590,000</u>	<u>\$ 84,000</u>	<u>\$ 674,000</u>

Interest expense for the year ended June 30, 2016 was \$35,750 and for the year ended June 30, 2015 was \$41,750.

**NOTE F – RELATED PARTY**

The Kentucky Bar Foundation, Inc. (the Foundation) is a related party to the Kentucky Bar Association in that both organizations share common facilities and that the KBA provides payroll services for the Foundation.

The following summarizes significant transactions and balances between the two at June 30, 2016 and June 30, 2015 and for the years then ended.

	<u><b>2016</b></u>	<u><b>2015</b></u>
Accounts receivable from Foundation	<u>\$67,160</u>	<u>\$72,408</u>
Rent paid or payable to the KBA from Foundation	<u>\$ 9,600</u>	<u>\$ 9,600</u>

**NOTE G – COMPENSATED ABSENCES**

In prior years the KBA has allowed a carryover of a maximum of forty-five unused vacation days accumulated through year-end. For fiscal years 2016 and 2015, the KBA allowed in excess of forty-five unused vacation days until October 31, 2016. Accordingly, for these future compensated absences, the KBA had accrued expenses of \$184,614 in the general fund and \$49,386 in the continuing legal education fund for the year ended June 30, 2016 and \$176,163 in the general fund and \$47,805 in the continuing legal education fund for the year ended June 30, 2015.

**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

**NOTE H – DESIGNATED FUND BALANCE**

By Board resolution, the General Fund surplus for Sections and Lawyer’s Assistance Program funds are allowed to be carried over to the next ensuing budget year and have been designated as such. Any current year excess support and revenue over expenses excluding the current effects of the aforementioned carryforward funds less transfers made to other funds may be transferred to related investment accounts for future operating needs.

**NOTE I – CONTINGENCIES**

The Association is subject to various other claims and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or by accruals when determinable. There are also matters that are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Association, if disposed of unfavorably.

**NOTE J – EQUIPMENT**

Equipment at June 30, 2016 and 2015, consists of the following:

	<u>2016</u>	<u>2015</u>
Property, building, and equipment	\$ 5,922,427	\$ 5,782,772
Vehicle	28,375	28,375
Less accumulated depreciation	<u>2,828,270</u>	<u>2,680,506</u>
	<u>\$ 3,122,532</u>	<u>\$ 3,130,641</u>

**NOTE K – FAIR VALUE MEASUREMENT**

The Association’s investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices of identical assets, and Level 3 inputs are unobservable and have the lowest priority. The Association uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Association measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or Level 3 inputs were available to the Association.

**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

Fair Value Measurement (cont'd)

*Level 1 Fair Value Measurements*

The fair value of common stocks and money market funds, are based on closing price reported on the active market for the securities at the end of the year.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of June 30, 2016 and June 30, 2015.

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
<b>June 30, 2016</b>		
Money market funds	\$ 1,279,931	\$ 1,279,931
Fixed income	3,275,163	3,275,163
Equities	<u>3,423,706</u>	<u>3,423,706</u>
Total assets at fair value	<u>\$ 7,978,800</u>	<u>\$ 7,978,800</u>
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
<b>June 30, 2015</b>		
Money market funds	\$ 1,288,095	\$ 1,288,095
Fixed income	2,734,635	2,734,635
Equities	<u>3,462,442</u>	<u>3,462,442</u>
Total assets at fair value	<u>\$ 7,485,172</u>	<u>\$ 7,485,172</u>

**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

**NOTE L - MULTI-EMPLOYER DEFINED BENEFIT PENSION PLAN**

As mentioned in the Summary of Significant Accounting Policies note, the Association participates with other organizations in the KERS's defined benefit pension plan. The risks of participating in this multi-employer plan are different from single-employer plans in the following aspects:

1. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in this multi-employer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. This amount is estimated to be \$14,881,301 at June 30, 2016.

The Association's participation in the plan for the annual period ended June 30, 2016 is outlined in the following table. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented.

<u>Pension Fund</u>	<u>EIN/Pension</u>	<u>FIP/RP Status Pending/Implemented</u>	<u>Contributions of the Association for the period ended June 30, 2016</u>	<u>Surcharged Imposed</u>
Pension plan for employees of KERS and affiliated agencies	61-0488768	Yes	\$ 979,475	No

As determined by the plan's actuary, the Association is noted as providing less than 5% of the total contributions for plan year ended June 30, 2016. At the date the financial statements were issued the Form 5500 was not available for the plan year ending in 2015.

At June 30, 2016, the plan was underfunded and the Association's potential liability for future years due to the underfunding has been estimated at approximately \$14,881,301 based on the current plan's actuarial data and asset value as of January 1, 2015. The actual minimum funding requirements for the future will be determined at each anniversary date. The Association does not intend to withdraw from the Plan.



**KENTUCKY BAR ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016 and June 30, 2015

**NOTE M - CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, which may at times exceed federally insured limits. The Organization places its cash with high credit quality financial institutions. The cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor in each institution. At times during the year, the Organization exceeded the \$250,000 insured by the FDIC.

**NOTE N – SUBSEQUENT EVENTS**

KBA's management has evaluated events through January 9, 2017, the date on which the financial statements were available for issue. Management has received approval from the Board of Governors and approval from the Kentucky Supreme Court to begin the process of repurchasing \$295,000 of Kentucky Bar Center Headquarters Project Bonds Series 2003.

**SUPPLEMENTARY INFORMATION**

**KENTUCKY BAR ASSOCIATION**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
June 30, 2016

<b>ASSETS</b>	<b>General Fund</b>	<b>Continuing Legal Education Fund</b>	<b>Client Security Fund</b>	<b>Bar Center Headquartes Trustees Fund</b>	<b>Bar Center Fund</b>	<b>Donated Legal Services Fund</b>	<b>Interfund Eliminations</b>	<b>Total</b>
<b>CURRENT ASSETS:</b>								
Cash	\$ 1,854,943	\$ 53,417	\$ 2,742	\$ 7,476	\$ 10,900	\$ 87,282	\$ 0	\$ 2,016,760
Certificate of Deposit						60,421		60,421
Investments	5,238,697	1,883,492	548,111		308,500			7,978,800
Accounts receivable	42,807	50,168						92,975
Interfund receivable	195,317			19,213			(214,530)	0
Due from Bar Foundation/IOLTA	64,760			2,400				67,160
Interest receivable	11,217	4,416	1,575		273	10		17,491
Prepaid expenses	54,725	20,036		2,236				76,997
<b>Total Current Assets</b>	<b>7,462,466</b>	<b>2,011,529</b>	<b>552,428</b>	<b>31,325</b>	<b>319,673</b>	<b>147,713</b>	<b>(214,530)</b>	<b>10,310,604</b>
<b>NONCURRENT ASSETS</b>								
Vehicle, net	6,148							6,148
Property, building, and equipment, net				3,116,384				3,116,384
Total Noncurrent Assets	6,148			3,116,384				3,122,532
<b>TOTAL ASSETS</b>	<b>\$ 7,468,614</b>	<b>\$ 2,011,529</b>	<b>\$ 552,428</b>	<b>\$ 3,147,709</b>	<b>\$ 319,673</b>	<b>\$ 147,713</b>	<b>\$ (214,530)</b>	<b>\$ 13,433,136</b>
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES:</b>								
Accounts payable	\$ 127,237	\$ 6,917	\$ 460	\$ 9,112	\$ 0	\$ 0	\$ 0	\$ 143,726
Interfund payable	1,094	212,751		685			(214,530)	0
Accrued expenses	279,939	65,791	1	15,200	3			360,934
Current maturities of bonds payable				135,000				135,000
<b>Total Current Liabilities</b>	<b>408,270</b>	<b>285,459</b>	<b>461</b>	<b>159,997</b>	<b>3</b>	<b>0</b>	<b>(214,530)</b>	<b>639,660</b>
<b>OTHER LIABILITIES:</b>								
Deferred revenue	12,579	2,090						14,669
Bonds payable, less current maturities				455,000				455,000
Total Other Liabilities	12,579	2,090		455,000				469,669
Total Liabilities	420,849	287,549	461	614,997	3	0	(214,530)	1,109,329
<b>NET ASSETS:</b>								
Designated for Sections	296,398							296,398
Designated for Lawyer's Assistance Program	3,244							3,244
Designated for Brief Insights	3,794							3,794
Undesignated	6,744,329	1,723,980	551,967	2,532,712	319,670	147,713		12,020,371
Total Net Assets	7,047,765	1,723,980	551,967	2,532,712	319,670	147,713	0	12,323,807
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,468,614</b>	<b>\$ 2,011,529</b>	<b>\$ 552,428</b>	<b>\$ 3,147,709</b>	<b>\$ 319,673</b>	<b>\$ 147,713</b>	<b>\$ (214,530)</b>	<b>\$ 13,433,136</b>

See Independent Auditors' Report.

**KENTUCKY BAR ASSOCIATION**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
 June 30, 2015

<b>ASSETS</b>	<b>General Fund</b>	<b>Continuing Legal Education Fund</b>	<b>Client Security Fund</b>	<b>Bar Center Headquartes Trustees Fund</b>	<b>Bar Center Headquartes Fund</b>	<b>Donated Legal Services Fund</b>	<b>Interfund Eliminations</b>	<b>Total</b>
<b>CURRENT ASSETS:</b>								
Cash	\$ 1,593,096	\$ 53,665	\$ 46,968	\$ 4,267	\$ 0	\$ 59,668	\$ 0	\$ 1,767,851
Certificate of Deposit	503,209					60,300		563,509
Investments	4,680,703	1,861,170	605,974					7,485,172
Accounts receivable	36,978	51,328						88,306
Interfund receivable	222,415			128,667			(351,082)	0
Due from Bar Foundation/IOLTA	70,008			2,400				72,408
Interest receivable	11,240	4,607	1,985			10		17,941
Prepaid expenses	48,662	18,588		2,374				69,624
Total Current Assets	<u>7,166,311</u>	<u>1,989,358</u>	<u>654,927</u>	<u>137,708</u>	<u>0</u>	<u>119,978</u>	<u>(351,082)</u>	<u>10,064,811</u>
<b>NONCURRENT ASSETS</b>								
Vehicle, net	11,823							11,823
Property, building, and equipment, net				3,118,818				3,118,818
Total Noncurrent Assets	<u>11,823</u>			<u>3,118,818</u>				<u>3,130,641</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,178,134</u>	<u>\$ 1,989,358</u>	<u>\$ 654,927</u>	<u>\$ 3,256,526</u>	<u>\$ 0</u>	<u>\$ 119,978</u>	<u>\$ (351,082)</u>	<u>\$ 13,195,452</u>
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES:</b>								
Accounts payable	\$ 278,255	\$ 3,253	\$ 860	\$ 33,392	\$ 0	\$ 0	\$ 0	\$ 315,764
Interfund payable	128,667	221,555		860			(351,082)	0
Accrued expenses	253,785	60,484		91,445				405,714
Current maturities of bonds payable				125,000				125,000
Total Current Liabilities	<u>660,707</u>	<u>285,292</u>	<u>860</u>	<u>250,697</u>	<u>0</u>	<u>0</u>	<u>(351,082)</u>	<u>846,478</u>
<b>OTHER LIABILITIES:</b>								
Deferred revenue	12,146	2,220						14,366
Bonds payable, less current maturities				590,000				590,000
Total Other Liabilities	<u>12,146</u>	<u>2,220</u>		<u>590,000</u>	<u>0</u>			<u>604,366</u>
Total Liabilities	<u>672,853</u>	<u>287,512</u>	<u>860</u>	<u>840,697</u>	<u>0</u>	<u>0</u>	<u>(351,082)</u>	<u>1,450,844</u>
<b>NET ASSETS:</b>								
Designated for Sections	288,471							288,471
Designated for Lawyer's Assistance Program	39,317							39,317
Designated for Brief Insights	4,106							4,106
Designated for Computer Carryforward	30,788							30,788
Undesignated	6,142,599	1,701,846	654,067	2,415,829		119,978		11,381,926
Total Net Assets	<u>6,505,281</u>	<u>1,701,846</u>	<u>654,067</u>	<u>2,415,829</u>	<u>0</u>	<u>119,978</u>	<u>0</u>	<u>11,744,608</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 7,178,134</u>	<u>\$ 1,989,358</u>	<u>\$ 654,927</u>	<u>\$ 3,256,526</u>	<u>\$ 0</u>	<u>\$ 119,978</u>	<u>\$ (351,082)</u>	<u>\$ 13,195,452</u>

See Independent Auditors' Report.

**KENTUCKY BAR ASSOCIATION**  
**COMBINING STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2016

	<u>General Fund</u>	<u>Continuing Legal Education Fund</u>	<u>Client Security Fund</u>	<u>Bar Center Headquartes Trustees Fund</u>	<u>Bar Center Fund</u>	<u>Donated Legal Services Fund</u>	<u>Total</u>
<b>UNRESTRICTED NET ASSETS</b>							
<b>REVENUE AND SUPPORT:</b>							
Membership dues	\$ 3,527,059	\$ 785,315	\$ 119,240	\$ 0	\$ 328,038	\$ 27,589	\$ 4,787,241
Other dues	177,252						177,252
Investment income/realized gain(loss)	84,223	32,811	12,387	3	3,245	121	132,790
Sections income	164,788						164,788
Reimbursement of costs	135,875						135,875
Attorney Advertising Commission	61,400						61,400
Pro Hac Vice	201,080						201,080
Publications/Communications	70,826						70,826
Conventions and Conferences	448,534						448,534
Rent of building				9,600			9,600
Net change in the fair value of investments	(13,155)	(4,763)	(4,298)		(1,549)		(23,765)
Other support and revenue	65,184	513,742	511			25	579,462
Total Support and Revenue	4,923,066	1,327,105	127,840	9,603	329,734	27,735	6,745,083
<b>EXPENSES:</b>							
Program Services:							
Sections	156,862						156,862
Board of Governors, Officers, Committees	108,130						108,130
Disciplinary/Unauthorized practice	1,738,357						1,738,357
Disciplinary Clerk's Office	89,786						89,786
Publications/Communications	286,989						286,989
Conventions and Conferences	406,303						406,303
Attorney Advertising Commission	91,931						91,931
Lawyers Assistance Program	206,955						206,955
Continuing Legal Education		1,069,508					1,069,508
Client Security			179,445				179,445
Bar Center				315,634	6,377		322,011
Total Program Services	3,085,313	1,069,508	179,445	315,634	6,377	0	4,656,277
Supporting Services:							
Management and General	1,509,607						1,509,607
Total Expenses	4,594,920	1,069,508	179,445	315,634	6,377	0	6,165,884
<b>INCREASE (DECREASE) IN NET ASSETS</b>	328,146	257,597	(51,605)	(306,031)	323,357	27,735	579,199
<b>NET ASSETS AT BEGINNING OF YEAR</b>	6,505,280	1,701,846	654,067	2,415,829	347,608	119,978	11,744,608
<b>TRANSFERS IN (OUT)</b>	214,339	(235,463)	(50,495)	422,914	(351,295)		0
<b>NET ASSETS AS OF JUNE 30, 2016</b>	\$ 7,047,765	\$ 1,723,980	\$ 551,967	\$ 2,532,712	\$ 319,670	\$ 147,713	\$ 12,323,807

See Independent Auditors' Report.

**KENTUCKY BAR ASSOCIATION**  
**COMBINING STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2015

	<u>General Fund</u>	<u>Continuing Legal Education Fund</u>	<u>Client Security Fund</u>	<u>Bar Center Headquarters Trustees Fund</u>	<u>Bar Center Headquarters Fund</u>	<u>Donated Legal Services Fund</u>	<u>Total</u>
<b>UNRESTRICTED NET ASSETS</b>							
<b>REVENUE AND SUPPORT:</b>							
Membership dues	\$ 3,484,052	\$ 776,247	\$ 117,921	\$ 0	\$ 0	\$ 27,175	\$ 4,729,706
Other dues	176,468						176,468
Investment income/realized gain(loss)	672,499	147,766	124,302	2		120	944,781
Sections income	153,614						153,614
Reimbursement of costs	97,277						97,277
Attorney Advertising Commission	115,491						115,491
Pro Hac Vice	202,508						202,508
Publications/Communications	83,260						83,260
Conventions and Conferences	477,503						477,503
Rent of building				9,600			9,600
Net change in the fair value of investments	(577,129)	(102,726)	(107,058)				(787,177)
Other support and revenue	69,991	491,017	19,994				581,002
Total Support and Revenue	<u>4,955,534</u>	<u>1,312,304</u>	<u>155,159</u>	<u>9,602</u>	<u>0</u>	<u>27,295</u>	<u>6,784,033</u>
<b>EXPENSES:</b>							
Program Services:							
Sections	160,591						160,591
Board of Governors, Officers, Committees	121,970						121,970
Disciplinary/Unauthorized practice	1,688,514						1,688,514
Disciplinary Clerk's Office	100,880						100,880
Publications/Communications	295,739						295,739
Conventions and Conferences	383,231						383,231
Attorney Advertising Commission	91,915						91,915
Lawyers Assistance Program	205,358						205,358
Continuing Legal Education		1,050,641					1,050,641
Client Security			27,536				27,536
Bar Center				280,509			286,746
Donated Legal Services						0	0
Total Program Services	<u>3,048,198</u>	<u>1,050,641</u>	<u>27,536</u>	<u>280,509</u>	<u>0</u>	<u>0</u>	<u>4,413,121</u>
Supporting Services:							
Management and General	1,412,525						1,412,525
Total Expenses	<u>4,460,723</u>	<u>1,050,641</u>	<u>27,536</u>	<u>280,509</u>	<u>0</u>	<u>0</u>	<u>5,825,646</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>494,811</u>	<u>261,663</u>	<u>127,623</u>	<u>(270,907)</u>	<u>0</u>	<u>27,295</u>	<u>958,387</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	5,858,564	1,661,738	573,995	2,167,466		92,683	10,786,221
<b>TRANSFERS IN (OUT)</b>	151,906	(221,555)	(47,551)	519,270			0
<b>NET ASSETS AS OF JUNE 30, 2015</b>	<u>\$ 6,505,281</u>	<u>\$ 1,701,846</u>	<u>\$ 654,067</u>	<u>\$ 2,415,829</u>	<u>\$ 0</u>	<u>\$ 119,978</u>	<u>\$ 11,744,608</u>

See Independent Auditors' Report.

**KENTUCKY BAR ASSOCIATION**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
For the fiscal year ended June 30, 2016

	General and Administrative	Sections	Board of Governors, Officers, and Committees	Disciplinary and Unauthorized Practices	Disciplinary Clerk's Office	Publications	Conventions	Advertising Commission	Lawyers Assistance Program	Continuing Legal Education	Client Security	Bar Center	Total
Salaries	\$ 657,377			1,048,698	53,364	97,743		48,089	111,267	420,651			\$ 2,437,189
Payroll taxes	50,542			78,597	4,228	7,125		4,964	8,540	29,314			183,310
Retirement	247,079			400,097	19,937	37,349		24,554	43,233	157,403			929,652
Benefits	74,245			139,781	2,250	17,797		10,525	15,565	73,815			333,978
Accounting fees	18,419												18,419
Legal fees	32,918		5,000										37,918
Professional fees	8,513	8,223		10,193	257	115	6,151	548	904	2,517	225		37,646
Supplies	30,417	1,154	1,647	10,421	1,084	282	32,672	526	1,097	15,044	697	1,741	96,782
Telephone	11,623	442	630	569		171	66	104	1,074	3,535	11		18,225
Postage	15,002	483	560	6,013	5,867	35,821	14,084	620	297	10,781	453		89,981
Utilities		-										44,647	44,647
Equipment/computer expense	95,970	2,500					12,725		483	12,112			123,790
Printing	1,820	1,736	796	1,365	246	85,467	5,234	92	497	54,585	115		151,953
Travel and lodging	22,206	28,784	62,251	27,711	1,238	2,310	49,682	1,118	18,418	44,245	1,211		259,174
Conference, convention, & meeting expense	5,160	11,057	1,915	9,461		370	30,901		1,360	94,266			154,490
Interest												35,750	35,750
Depreciation	5,675											149,530	155,205
Bank/investment fees	17,552						11,060			5,923	2,392	933	37,860
Stipends	8,000												8,000
Meals & entertainment	19,461	31,699	33,187	5,451	1,154	180	126,464	590	2,424	22,801	414	364	244,189
Library/research	110,021												110,021
Maintenance/repairs	360									360		59,072	59,792
Audio visual expense		1,559	329		161		37,421			110,646			150,116
Contributions, sponsors, & grants		28,400											28,400
Insurance	60,160									1,281		18,441	79,882
Speakers							73,100						73,100
Payment on claims											173,927		173,927
Contribution in lieu of taxes												6,000	6,000
Unrelated business tax						959							959
Other	14,698	36,645								254			51,597
Miscellaneous	2,389	4,180	1,815			1,300	6,743	201	1,796	9,975		5,533	33,932
<b>Total</b>	<b>\$ 1,509,607</b>	<b>\$ 156,862</b>	<b>\$ 108,130</b>	<b>\$ 1,738,357</b>	<b>\$ 89,786</b>	<b>\$ 286,989</b>	<b>\$ 406,303</b>	<b>\$ 91,931</b>	<b>\$ 206,955</b>	<b>\$ 1,069,508</b>	<b>\$ 179,445</b>	<b>\$ 322,011</b>	<b>\$ 6,165,884</b>

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**KENTUCKY BAR ASSOCIATION**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
For the fiscal year ended June 30, 2015

	Management and General	Sections	Board of Governors, Officers, and Committees	Disciplinary and Unauthorized Practices	Disciplinary Clerk's Office	Publications	Conventions	Advertising Commission	Lawyers Assistance Program	Continuing Legal Education	Client Security	Bar Center	Total
Salaries	\$ 606,597	\$ 0	\$ 0	\$ 1,031,145	\$ 63,599	\$ 99,244	\$ 0	\$ 46,151	\$ 108,505	\$ 431,059	\$ 0	\$ 0	\$ 2,386,300
Payroll taxes	48,116			79,856	5,511	7,572		4,960	8,541	34,692			189,248
Retirement	225,284			394,389	19,254	36,807		23,773	42,080	159,620			901,207
Benefits	65,692			123,661	2,197	16,329		10,012	15,107	67,387			300,385
Accounting fees	17,677									688			18,365
Legal fees	46,253												46,253
Professional fees	7,043	8,875		9,475		3,072	20,636	3,015	1,063	1,940	225		55,344
Supplies	22,538	900	5,077	10,690	1,031	660	44,685	657	1,499	15,784	503	3,524	107,548
Telephone	9,327	552	423	699		271	1,533	157	1,002	2,917	24		16,905
Postage	13,886	399	844	4,357	8,657	33,295	12,948	677	271	9,629	283		85,246
Utilities												40,968	40,968
Equipment/computer expense	82,886	2,100								7,176			92,162
Printing	2,323	1,549	679	1,449	373	91,065	9,916	215	582	52,974	59		161,184
Travel and lodging	22,126	25,059	70,144	22,474	149	3,444	43,612	1,711	15,171	46,649	1,433	173	252,145
Conference, convention, & meeting expense	3,807	7,941	3,472	6,370		570	27,085		2,559	80,931			132,735
Interest												41,750	41,750
Depreciation	5,675											127,427	133,102
Bank/investment fees	16,794						7,596			4,946	2,495	793	32,624
Stipends	8,000												8,000
Meals & entertainment	22,107	31,316	39,246	3,848	109	418	109,049	179	7,498	43,271	464		257,505
Library/research	110,557												110,557
Maintenance/repairs	235									235		48,930	49,400
Audio visual expense							59,360			78,429			137,789
Contributions, sponsors, & grants		47,773				1,000							48,773
Insurance	60,380									1,289		17,181	78,850
Speakers							39,265						39,265
Teleseminars/special program													0
Payment on claims											22,050		22,050
Contribution in lieu of taxes												6,000	6,000
Unrelated business tax						858							858
Other	13,000	33,588											46,588
Miscellaneous	2,223	539	2,085	100		1,134	7,546	408	1,480	11,025			26,540
<b>Total</b>	<b>\$ 1,412,526</b>	<b>\$ 160,591</b>	<b>\$ 121,970</b>	<b>\$ 1,688,513</b>	<b>\$ 100,880</b>	<b>\$ 295,739</b>	<b>\$ 383,231</b>	<b>\$ 91,915</b>	<b>\$ 205,358</b>	<b>\$ 1,050,641</b>	<b>\$ 27,536</b>	<b>\$ 286,746</b>	<b>\$ 5,825,646</b>

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