



Consolidated Financial Statements

for

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

Years Ended June 30, 2021 and 2020
with Report of Independent Auditors

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Report of Independent Auditors

Board of Directors
Kentucky League of Cities, Inc and Subsidiaries
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Kentucky League of Cities, Inc and Subsidiaries (collectively, KLC) which comprise the consolidated statements of net position as of June 30, 2021 and 2020, the related consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 the accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 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 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 net position of Kentucky League of Cities, Inc and Subsidiaries as of June 30, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Kentucky League of Cities, Inc and Subsidiaries
Report of Independent Auditors, continued

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 - 5, the Schedules of the Proportionate Share of the Net Pension Liability on page 42, the Schedules of the Proportionate Share of the Net OPEB Liability on page 43, the Schedules of Pension Contributions on page 44, and the Schedules of OPEB Contributions on page 45 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 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating schedules on pages 36 - 41 are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2021 on our consideration of KLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of KLC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KLC's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
September 14, 2021

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of the Kentucky League of Cities, Inc. and Subsidiaries (KLC or the Organization) provides an overview of the Organization's financial activity for the fiscal year ended June 30, 2021. It should be read in conjunction with the consolidated financial statements, which begin on page 6.

Using this Annual Report

This report consists of a series of financial statements. The consolidated statements of net position on page 6 provide information about the Organization as a whole.

Statements of Net Position

Table 1 shows all of the assets and liabilities of the Organization and is presented on the accrual basis. The Organization experienced an increase of \$627,851 in net position in the current year. The increase in current assets is due to an increase in investments due to overall market performance. The current liabilities increased this fiscal year due to an increase in accounts payable, related parties, and unearned revenue.

**Table 1
Net Position**

	<u>2021</u>	<u>2020</u>
Current assets	\$ 17,747,821	\$ 14,127,126
Capital and other assets	<u>5,498,926</u>	<u>5,732,064</u>
Total assets	23,246,747	19,859,190
Deferred outflows of resources	<u>6,090,622</u>	<u>5,707,891</u>
Combined assets and deferred outflows of resources	29,337,369	25,567,081
Current liabilities	3,074,761	2,268,575
Long-term liabilities	1,387,904	1,795,290
Net pension liability	17,393,915	15,750,291
Net postemployment benefits other than pension liability	<u>5,474,478</u>	<u>3,765,712</u>
Total liabilities	27,331,058	23,579,868
Deferred inflows of resources	<u>1,355,776</u>	<u>1,964,529</u>
Combined liabilities and deferred inflows of resources	<u>28,686,834</u>	<u>25,544,397</u>
Total net position	<u>\$ 650,535</u>	<u>\$ 22,684</u>

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Management's Discussion and Analysis (Unaudited), continued

Statements of Revenues, Expenses and Changes in Net Position

Table 2 shows the revenues and expenses of the Organization and is also presented on the accrual basis. Operating revenues decreased \$685,083 mainly from related party administrative fees. The decrease in administrative fees for KLC insurance lines is due to the decrease in direct and shared salary cost, while the Unemployment Pool had fewer full-time employees resulting in a lower unemployment administrative fee. Additionally, the Bond Pool administrative fee decreased because in 2020 KLC received a one-time distribution of approximately \$374,000. Total operating expenses decreased \$525,996 from the prior year primarily due to decreased salaries. Non-operating revenue improved due to a sizeable increase in investment income. Favorable investment yields for both realized and unrealized investment gains account for most of the significant change.

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

	<u>2021</u>	<u>2020</u>
Operating revenue:		
Administrative fees	\$ 7,986,430	\$ 8,696,293
Commissions	2,642,276	2,545,426
Member dues	538,262	538,898
Member meeting and training income	232,395	288,513
Publication income	24,690	7,613
Other	<u>448,021</u>	<u>480,414</u>
Total operating revenue	11,872,074	12,557,157
Operating expenses:		
Administrative and general	6,723,615	6,462,929
Member insurance services	5,481,968	5,951,076
Legislative services	1,703,765	1,873,391
Member financial services	246,587	276,450
Member meeting and training services	<u>99,603</u>	<u>217,688</u>
Total operating expenses	14,255,538	14,781,534
Nonoperating revenue, net	<u>3,011,315</u>	<u>634,286</u>
Change in net position	\$ <u>627,851</u>	\$ <u>(1,590,091)</u>

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

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

Description of Current and Expected Conditions

The management of KLC is not aware of any other significant changes in conditions that would have a significant effect on the financial position or results of operations of the Organization in the near future.

Contacting KLC's Financial Management

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

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Consolidated Statements of Net Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,583,984	\$ 2,075,684
Investments	14,975,073	11,239,406
Accounts receivable	287,416	119,653
Prepaid expenses and other assets	203,883	253,685
Other receivables	329,047	288,043
Due from related parties	<u>368,418</u>	<u>150,655</u>
Total current assets	17,747,821	14,127,126
Capital assets, net	<u>5,498,926</u>	<u>5,732,064</u>
Total assets	<u>\$ 23,246,747</u>	<u>\$ 19,859,190</u>
Deferred Outflows of Resources		
Deferred amount related to pension plan	\$ 3,354,878	\$ 4,012,010
Deferred amount related to OPEB	<u>2,735,744</u>	<u>1,695,881</u>
Total deferred outflows of resources	<u>\$ 6,090,622</u>	<u>\$ 5,707,891</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 391,350	\$ 220,780
Accrued liabilities	1,216,406	1,181,615
Unearned revenue	458,522	419,401
Due to related parties	601,097	51,692
Current maturities of note payable	65,404	62,942
Current maturities of bond payable	<u>341,982</u>	<u>332,145</u>
Total current liabilities	3,074,761	2,268,575
Note payable, net of current maturities	456,739	522,143
Bond payable, net of current maturities	931,165	1,273,147
Net pension liability	17,393,915	15,750,291
Net OPEB liability	<u>5,474,478</u>	<u>3,765,712</u>
Total liabilities	<u>\$ 27,331,058</u>	<u>\$ 23,579,868</u>
Deferred Inflows of Resources		
Deferred amount related to pension plan	\$ 318,707	\$ 622,794
Deferred amount OPEB	<u>1,037,069</u>	<u>1,341,735</u>
Total deferred inflows of resources	<u>\$ 1,355,776</u>	<u>\$ 1,964,529</u>
Net Position		
Invested in capital assets, net of related debt	\$ 3,703,636	\$ 3,541,687
Unrestricted and assigned by the KLC Executive Board for: future city advocacy and programming in lieu of dues increase	500,000	500,000
Unrestricted and assigned by the KLC Executive Board for: capital projects	342,554	752,050
Unrestricted and unassigned, available for general activities	<u>(3,895,655)</u>	<u>(4,771,053)</u>
Total net position	<u>\$ 650,535</u>	<u>\$ 22,684</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Consolidated Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenue:		
Administrative fee - KLCIS	\$ 5,066,183	\$ 5,436,789
Administrative fee - KLCWCT	2,001,957	2,057,309
Administrative fee - Bond Pools	797,061	1,076,335
Administrative fee - KLCUCRT	121,229	125,860
Commissions	2,642,276	2,545,426
Member dues	538,262	538,898
Member meeting and training income	232,395	288,513
Publication income	24,690	7,613
Other	<u>448,021</u>	<u>480,414</u>
Total operating revenue	11,872,074	12,557,157
Operating expenses	<u>14,255,538</u>	<u>14,781,534</u>
Operating loss	(2,383,464)	(2,224,377)
Nonoperating revenues (expenses):		
Net rental income	1,146,727	1,086,946
Interest and investment income	2,638,915	357,469
Interest expense	(56,508)	(83,890)
Loss on disposal of capital assets	(59)	-
Building expenses	<u>(717,760)</u>	<u>(726,239)</u>
Total nonoperating revenue	<u>3,011,315</u>	<u>634,286</u>
Change in net position	627,851	(1,590,091)
Net position, beginning of year	<u>22,684</u>	<u>1,612,775</u>
Net position, end of year	\$ <u>650,535</u>	\$ <u>22,684</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from members and affiliates	\$ 11,702,428	\$ 12,594,162
Cash paid to suppliers and employees	<u>(11,247,126)</u>	<u>(12,152,509)</u>
Net cash provided by operating activities	455,302	441,653
Cash flows from noncapital financing activities:		
Payments from (to) related parties, net	<u>331,643</u>	<u>(139,938)</u>
Net cash provided by (used in) noncapital financing activities	331,643	(139,938)
Cash flows from capital and related financing activities:		
Capital expenditures	<u>(457,743)</u>	(157,965)
Principal payments on bond payable	<u>(332,145)</u>	(322,538)
Principal payments on note payable	<u>(62,942)</u>	(60,511)
Interest paid	<u>(56,508)</u>	<u>(83,890)</u>
Net cash used in capital and related financing activities	(909,338)	(624,904)
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	2,234,577	3,140,980
Interest and income on investments	651,926	170,320
Purchase of investments	<u>(3,983,255)</u>	(4,504,246)
Proceeds from rental activities, net	<u>727,445</u>	<u>724,064</u>
Net cash used in investing activities	<u>(369,307)</u>	<u>(468,882)</u>
Net decrease in cash and cash equivalents	(491,700)	(792,071)
Cash and cash equivalents, beginning of year	<u>2,075,684</u>	<u>2,867,755</u>
Cash and cash equivalents, end of year	<u>\$ 1,583,984</u>	<u>\$ 2,075,684</u>

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (2,383,464)	\$ (2,224,377)
Adjustments:		
Depreciation and amortization	398,136	413,431
Pension liability, net of deferred inflows and outflows of resources	1,996,669	1,965,030
OPEB liability, net of deferred inflows and outflows of resources	364,237	89,706
Recovery of bad debts	-	(418)
Increase (decrease) in cash due to changes in:		
Accounts receivable	(167,763)	116,733
Prepaid expenses and other assets	44,010	144,845
Other receivables	(41,004)	(11,856)
Accounts payable	170,570	(95,407)
Accrued liabilities	34,790	111,838
Unearned revenue	<u>39,121</u>	<u>(67,872)</u>
Net cash provided by operating activities	<u>\$ 455,302</u>	<u>\$ 441,653</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

1. Nature of Organization and Operations

The Kentucky League of Cities, Inc. and Subsidiaries (the League) 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. The League publishes a newsletter and a weekly bulletin on the status of legislation. The League's revenues are substantially comprised of fees earned for administration of entities related to the League 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, the League. 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 related entities.

Kentucky League of Cities Premium Finance Company (KLCPPFC) was incorporated on March 26, 2003 by its sole stockholder, KLC. KLCPPFC was organized to finance insurance premiums for member cities. The operations of KLCPPFC became inactive as of June 30, 2019; however, KLCPPFC remains an active entity. As of June 30, 2021 and 2020, KLCPPFC had an ending net position of \$161,430 and \$154,539, respectively which satisfies the minimum net worth requirement per 806 KAR 30:080.

The consolidated financial statements include the accounts of the League, KLCIA, and KLCPPFC, (collectively, KLC). All significant intercompany balances and transactions have been eliminated upon consolidation.

The following entities are KLC related entities:

- Kentucky Bond Corporation (KBC)
- Kentucky Bond Development Corporation (KBDC)
- Kentucky League of Cities Funding Trust (KLCFT)
- Kentucky League of Cities Investment Pool Plus (KLCIPP)
- Kentucky League of Cities Insurance Services (KLCIS)
- Kentucky League of Cities Unemployment Compensation Reimbursement Trust (KLCUCRT)
- Kentucky League of Cities Workers Compensation Trust (KLCWCT)
- Kentucky Local Government Health Trust (KLGHT)

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by KLC in the preparation of its consolidated financial statements.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Basis of Presentation

KLC presents its consolidated financial statements in conformity with GAAP as applied to government units. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As a proprietary activity, KLC has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Therefore, KLC follows GASB pronouncements and all Financial Accounting Standards Board and predecessor boards' pronouncements except those that conflict with or contradict GASB pronouncements.

Operating revenues are those revenues that are generated from the primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

KLC has a concentration of credit risk in that it periodically maintains bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation (FDIC). Cash equivalents include investments in a money market fund that are not FDIC insured.

Investments

Investment securities consist of U.S. government agency equity securities and mutual funds consisting of governmental securities and debt and equity securities. Investments are stated at fair value based, generally, on quoted market prices.

Realized gains and losses on investments are calculated as the difference between the proceeds of the sale and the original cost of the investments sold. This calculation is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that were held in prior years and sold in the current year were included as a net change in the fair value of investments as reported in the prior year.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Capital Assets

Capital assets consisting of land, buildings, parking lot and improvements, furniture, equipment, and building and land improvements, are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	39 years
Furniture and fixtures	3-15 years
Improvements	15 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.

Description of Net Position Classes

Net position of KLC is classified in the following components:

Investment in capital assets - Consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted non-expendable - Consists of non-capital assets subject to externally imposed stipulations that they be maintained permanently by KLC.

Restricted expendable - Consists of non-capital assets that must be used for particular purpose, as specified by creditors, grantors, or donors external to KLC.

Unrestricted - Unrestricted net position is remaining net position that does not meet the definition of investment in capital assets, net of related debt or restricted net position. The KLC Executive Board has assigned a portion for future city advocacy and programming in lieu of dues increase and capital projects.

Income Taxes

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

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Unearned Revenue

Unearned revenue consists of KLC members' dues. Members' annual dues are billed in advance throughout the year. These dues are deferred and subsequently recognized on a pro-rata basis. Total unearned revenue related to members' dues was \$268,204 and \$267,527 as of June 30, 2021 and 2020, respectively. Unearned revenue also includes convention, administrative fees, advertising fees and rent received in advance. Total other unearned revenue for KLC as of June 30, 2021 and 2020 was \$163,866 and \$126,726, respectively.

Additionally, KLCIA has received commissions from certain insurance carriers for advance premiums sold to member cities. These commissions are earned over the life of the premium policy period. Total unearned revenue for KLCIA as of June 30, 2021 and 2020 was \$26,452 and \$25,148, respectively.

Pensions and Other Post-Employment Benefits (OPEB)

KLC participates in the County Employees Retirement System (CERS) administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension and OPEB plan, which covers all eligible full-time employees and provides for retirement, health insurance, disability and death benefits to plan members.

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* cost-sharing governmental employers, such as KLC, are required to report a net pension and OPEB liability, pension and OPEB expense and pension and OPEB related deferred outflows and inflows of resources based on their proportionate share of the collective amounts for all governments in the plan. For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of CERS and additions to or deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments and health insurance premiums (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

All governments participating in the defined benefit pension and OPEB plan also are required to disclose various information in the footnotes to the consolidated financial statements – see Note 6.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

COVID-19

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. KLC is closely monitoring the impact of the COVID-19 pandemic on all aspects of its operations. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts KLC will depend on future developments, which are highly uncertain and cannot be predicted.

Reclassifications

Certain amounts in the 2020 financial statements have been reclassified for comparative purposes to conform with the 2021 presentation. These reclassifications had no impact on net position or the change in net position.

Recent Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this statement is to address government lessee's recognition of lease liabilities, intangible assets, and report amortization expense for using the lease; interest expense on the lease liability; and, note disclosures about the lease. Another objective of this statement is to address government lessor's recognition of a lease receivable, deferred inflow, and report lease revenue, interest income, and note disclosures about the lease. In May 2020, GASB issued Statement No. 95, which deferred the effective date of Statement No. 87. The updated statement will be effective for KLC for the fiscal year beginning July 1, 2021. KLC is evaluating the impact of this statement to its financial reporting.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 14, 2021, the date that the financial statements were available to be issued.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

3. Deposits and Investments

Deposits and investments held by KLC as of June 30 are as follows:

	<u>2021</u>	<u>2020</u>
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	\$ 1,204,027	\$ 1,472,028
Money market mutual funds	<u>379,957</u>	<u>603,656</u>
Total deposits	1,583,984	2,075,684
Investments classified as investment securities:		
U.S. government agencies and municipal obligations	2,500,623	2,238,341
Corporate and foreign bonds	1,384,617	1,220,308
Bond mutual funds	2,065,009	1,425,271
Equity mutual funds	1,702,715	838,794
Equity securities	<u>7,322,109</u>	<u>5,516,692</u>
Total investments	<u>14,975,073</u>	<u>11,239,406</u>
Total deposits and investments	<u>\$ 16,559,057</u>	<u>\$ 13,315,090</u>

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

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 192,180	\$ 210,189
Realized gains (losses) on sales of securities	459,746	(39,869)
Unrealized gains on securities	<u>1,986,989</u>	<u>187,149</u>
	<u>\$ 2,638,915</u>	<u>\$ 357,469</u>

Fair Value

Investments are measured at fair value on a recurring basis. 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 KLC's investments are actively traded and categorized as Level 1 investments in the fair value hierarchy.

Investments with Related Party

During the year ended June 30, 2021, KLC invested an additional \$1,000,000 through KLCIPP. The investments held by KLCIPP are managed and advised by PNC Bank. The fair value of these investments were \$2,381,615 and \$1,152,791 as of June 30, 2021 and 2020, respectively.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

3. 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 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, 2021, KLC was invested in several U.S. government agency bonds, state and local municipal bonds, mortgage obligations, corporate and foreign bonds which have the following ratings as of June 30, 2021:

AA	\$ 835,018
A	672,530
Below A	362,137
Not rated or other	<u>2,015,555</u>
	<u>\$ 3,885,240</u>

Concentration of Credit Risk

KLC's investment policy limits investments in any single holding to no more than 5% of the market value of the account, except for bonds issued by the Kentucky Bond Corporation, up to an aggregate limit of \$2,000,000, as well as setting guidelines for the type and quality of investments. At June 30, 2021, KLC had one investment that exceeded the 5% limit which was within the policy guidelines as it was a series of bonds issued by the Kentucky Bond Corporation. In 2020, KLC had no investments that exceeded the 5% limit.

As of June 30, 2021, KLC had the following investment maturities:

	Investment Maturities (in years)			
	Less than 1	1-5	6-10	More than 10
U.S. government agencies and municipal obligations	\$ -	\$ 216,173	\$ 284,450	\$ 2,000,000
Corporate and foreign bonds	<u>50,819</u>	<u>574,585</u>	<u>759,213</u>	<u>-</u>
Total maturities	<u>\$ 50,819</u>	<u>\$ 790,758</u>	<u>\$ 1,043,663</u>	<u>\$ 2,000,000</u>

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

4. Capital Assets

Capital asset activity for the year ended June 30, 2021 is as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets at cost:					
Land	\$ 674,175	\$ -	\$ -	\$ -	\$ 674,175
Buildings	7,200,362	191,547	-	35,522	7,427,431
Parking lot and improvements	1,249,505	-	-	-	1,249,505
Furniture and fixtures	2,099,351	195,506	(75,438)	48,220	2,267,639
Improvements	5,789,599	-	-	-	5,789,599
Construction in progress	<u>22,781</u>	<u>70,690</u>	<u>-</u>	<u>(83,742)</u>	<u>9,729</u>
Total capital assets at cost	17,035,773	457,743	(75,438)	-	17,418,078
Less: accumulated depreciation	<u>(11,303,709)</u>	<u>(690,822)</u>	<u>75,379</u>	<u>-</u>	<u>(11,919,152)</u>
Total net capital assets	\$ <u>5,732,064</u>	\$ <u>(233,079)</u>	\$ <u>(59)</u>	\$ <u>-</u>	\$ <u>5,498,926</u>

Capital asset activity for the year ended June 30, 2020 is as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets at cost:					
Land	\$ 674,175	\$ -	\$ -	\$ -	\$ 674,175
Buildings	7,186,626	12,836	-	900	7,200,362
Parking lot and improvements	1,249,505	-	-	-	1,249,505
Furniture and fixtures	2,001,532	97,819	-	-	2,099,351
Improvements	5,765,070	24,529	-	-	5,789,599
Construction in progress	<u>900</u>	<u>22,781</u>	<u>-</u>	<u>(900)</u>	<u>22,781</u>
Total capital assets at cost	16,877,808	157,965	-	-	17,035,773
Less: accumulated depreciation	<u>(10,532,717)</u>	<u>(770,992)</u>	<u>-</u>	<u>-</u>	<u>(11,303,709)</u>
Total net capital assets	\$ <u>6,345,091</u>	\$ <u>(613,027)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,732,064</u>

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

5. Long-Term Debt

Long-term debt activity for the year ended June 30, 2021 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Bonds payable	\$ 1,605,292	\$ -	\$ (332,145)	\$ 1,273,147	\$ 341,982
Note payable	<u>585,085</u>	<u>-</u>	<u>(62,942)</u>	<u>522,143</u>	<u>65,404</u>
	<u>\$ 2,190,377</u>	<u>\$ -</u>	<u>\$ (395,087)</u>	<u>\$ 1,795,290</u>	<u>\$ 407,386</u>

Long-term debt activity for the year ended June 30, 2020 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Bonds payable	\$ 1,927,830	\$ -	\$ (322,538)	\$ 1,605,292	\$ 332,145
Note payable	<u>645,596</u>	<u>-</u>	<u>(60,511)</u>	<u>585,085</u>	<u>62,942</u>
	<u>\$ 2,573,426</u>	<u>\$ -</u>	<u>\$ (383,049)</u>	<u>\$ 2,190,377</u>	<u>\$ 395,087</u>

Bond Payable

On March 1, 2006, KLC issued an adjustable rate, taxable 2006 series bond in the amount of \$5,000,000. On December 1, 2009, this bond was refinanced by three 15-year variable rate leases. Repayment on these leases began January 1, 2011. The interest rates on the leases as of June 30, 2021 were 2.00%. The leases are included in the bond pools that are administered by KLC (see Note 7). The leases bear interest at variable rates based on the SIFMA municipal index. In order to secure the loan, KLC pledged the following as security for the loan repayment: all rental income derived from the building, \$2,000,000 of KLC's investments, and a negative lien pledge/covenant on the building.

Note Payable

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

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

5. Long-Term Debt, continued

The following is a schedule of the required future principal payments on the bonds payable and notes payable as well as interest:

Year ending June 30,	Bonds Payable	Notes Payable	Interest	Total
2022	\$ 341,982	\$ 65,404	\$ 58,901	\$ 400,883
2023	352,133	67,962	43,942	396,075
2024	362,578	70,583	28,550	391,128
2025	216,454	73,380	13,535	229,989
2026	-	76,250	8,076	8,076
Thereafter	-	168,564	7,115	160,119
	<u>\$ 1,273,147</u>	<u>\$ 522,143</u>	<u>\$ 160,119</u>	<u>\$ 1,586,270</u>

6. Retirement and OPEB Plans

457 Deferred Compensation Plan

KLC previously offered its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457 in which KLC contributed 10% of each participant's annual salary. Contributions by KLC to this plan ceased in April 1994, however, the plan remains as a strictly voluntary plan and all full-time employees are eligible to participate from the time of hire.

401(a) Deferred Compensation Plan

In April 1994, KLC created a plan in accordance with IRC Section 401(a) that was available to all full-time employees who had completed one year of service. Only employees hired prior to September 1, 2000 may elect to participate in this plan. KLC made contributions to the 401(a) plan of 10% of each eligible participant's annual salary. For the years ended June 30, 2021 and 2020, contributions totaled \$81,472 and \$94,575, respectively.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

County Employees Retirement System (CERS) Pension and OPEB Plans

Plan description – House Bill 484, passed during the 2020 Regular Session of the Kentucky General Assembly, and House Bill 9, passed during the 2021 Regular Session of the General Assembly, made significant changes to the governance and administrative structure. Most notably, effective April 1, 2021, the governance of CERS has been transferred to a separate 9-member board of trustees. Another 9-member board of trustees called the Kentucky Retirement System (KRS) will oversee the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS). The administrative entity comprising the office of counselors and professional staff that has traditionally been known as the Kentucky Retirement System has changed its name to the Kentucky Public Pensions Authority (KPPA). KPPA will be governed by the third 8-member board composed of trustees from CERS and KRS. These are cost-sharing, multiple employer defined benefit pension plans (the Pension Fund). The CERS and KRS Boards of Trustees also administer the Kentucky Retirement System's Insurance Fund (the Insurance Fund). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds: (1) KERS; (2) CERS; and (3) SPRS. The assets of the Insurance Fund are also segregated by plan. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving a benefit, in accordance with the provisions of KRS Sections 16.510, 61.515, 61.702, 78.520, and 78.630.

KLC elected to participate in CERS beginning September 1, 2000. The CERS Pension Fund and Insurance Fund cover all eligible full-time employees and provide retirement, disability and death benefits, and health insurance benefits. Benefit contributions and provisions are established by statute. CERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPPA, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, by visiting the website at www.kyret.ky.gov or by calling (502) 696-8800.

There are 3 tiers to the CERS pension system determined by employee participation date. Tier 1 is for employees with a participation date prior to September 1, 2008. Tier 2 is for participation dates between September 1, 2008 and December 31, 2013. Tier 3 is for participation dates on or after January 1, 2014.

Benefits provided – CERS provides retirement, disability, and death benefits. Aspects of benefits for non-hazardous Tier 1 employees include retirement after 27 years of service or age 65. Non-hazardous Tier 2 employees must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit. All KLC employees are deemed non-hazardous.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

County Employees Retirement System (CERS) Pension and OPEB Plans, continued

Each employee participating in CERS Tiers 1 or 2 is entitled to a monthly benefit based upon their months of service multiplied by the average of 5 full fiscal years of salary (highest 5 or last 5 based on date of participation) upon attainment of CERS specified age (or age and service combinations). Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service.

Benefit factors are also determined by participation dates. Tier 1 benefit factors are 2.2 percent, if the employee's participation began prior to August 1, 2004 and 2.0 percent if participation date was after August 1, 2004.

Tier 2 benefit factors are:

- 1.10% - Service Credit less than or equal to 120 months
- 1.30% - Service Credit between 121 and 240 months
- 1.50% - Service Credit between 241 and 312 months
- 1.75% - Service Credit between 313 and 360 months
- 2.00% - Service Credit in excess of 360 months only

Retirement benefits for Tier 1 and Tier 2 employees are determined by multiplying the benefit factor by the employee's final 5 year average compensation times the employee's years of service.

Tier 3 employees are placed in a cash balance plan. The cash balance plan is a hybrid between a defined contribution plan and a defined benefit plan and earns at least a guaranteed four percent interest annually. Additional interest may be credited to participant's accounts depending on the overall investment returns. Employees are vested after 60 months of service credit. When the employee is eligible to retire, the benefit is based on their accumulated account balance.

Employees are eligible for service related disability benefits regardless of length of service. Five years of service is required for nonservice related disability eligibility. Disability benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

County Employees Retirement System (CERS) Pension and OPEB Plans, continued

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15 - 19	75%	25%
14 - 10	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Contributions – Benefit and contribution rates are established by state statute. non-hazardous covered employees are required to contribute 5.00% of their salary to the plan. non-hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6.00% of their salary to the plan. KLC's contribution rate for non-hazardous employees, for both pension benefits and health benefits funds, was 24.06%, 24.06% and 21.48% for the years ended June 30, 2021, 2020 and 2019, respectively.

Pension Plan

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2021 and 2020, KLC reported a liability of \$17,393,915 and \$15,750,291, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. KLC's proportion of the net pension liability was based on KLC's actual contributions to the pension plan relative to the actual contributions of all participating organizations.

For the years ended June 30, 2021 and 2020, KLC recognized pension expense of \$3,056,790 and \$3,117,863, respectively.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

Pension Plan, continued

At June 30, 2021, KLC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 433,749	\$ -
Changes in assumption	679,203	-
Net difference between projected and actual earnings on pension plan investments	753,968	318,707
Changes in proportion and differences between KLC's contributions and proportionate share of contributions	427,837	-
KLC's contributions subsequent to the measurement date of June 30, 2020	<u>1,060,121</u>	<u>-</u>
Total	<u>\$ 3,354,878</u>	<u>\$ 318,707</u>

At June 30, 2020, KLC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 402,152	\$ 66,549
Changes in assumption	1,594,108	-
Net difference between projected and actual earnings on pension plan investments	302,344	556,245
Changes in proportion and differences between KLC's contributions and proportionate share of contributions	560,574	-
KLC's contributions subsequent to the measurement date of June 30, 2019	<u>1,152,832</u>	<u>-</u>
Total	<u>\$ 4,012,010</u>	<u>\$ 622,794</u>

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

Pension Plan, continued

The deferred outflows of resources related to KLC's contributions to the CERS pension plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. The deferred outflows of resources related to the net difference between projected and actual earnings on pension plan investments are amortized and recognized in pension expense over five years. All other amounts reported as deferred outflows of resources related to pensions are amortized and recognized in pension expense over the average expected remaining service life of the entire plan membership, which is 3.14 years for non-hazardous employees. The net increase in pension expense related to the amortization of these deferred outflows/inflows of resources is as follows:

Year ending June 30:	
2022	\$ 981,330
2023	599,473
2024	220,437
2025	<u>174,810</u>
Total	\$ <u>1,976,050</u>

Actuarial assumptions – For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ended June 30, 2020, using generally accepted actuarial assumptions.

The Board of Trustees of the Kentucky Retirement Systems adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The total pension liability as of June 30, 2020, was determined using these updated assumptions.

Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The actuarial assumptions were used in performing the actuarial valuation for CERS are:

Inflation	2.30 percent
Payroll growth	2.0 percent for CERS non-hazardous
Salary increases	3.30 to 10.30 percent, varies by service
Investment rate of return	6.25 percent

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

Pension Plan, continued

The mortality table used for active members is PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members is a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long Term Expected Real Rate of Return
Asset Class:		
Growth:		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity:		
Core Bonds	13.50%	(0.25%)
Cash	1.00%	(0.75%)
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	

Discount rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

Pension Plan, continued

Sensitivity of KLC's proportionate share of the net pension liability to changes in the discount rate – The following presents KLC's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the KLC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.25%) or 1 percentage point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
KLC's share of the net pension liability	\$ 21,450,482	\$ 17,393,915	\$ 14,034,923

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

OPEB Plan

OPEB liabilities, OPEB expense, deferred outflows of resources and deferred inflows of resources related to OPEB - At June 30, 2021 and 2020, KLC reported a liability of \$5,474,478 and \$3,765,712, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020 and 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of these dates. KLC's proportion of the net OPEB liability was based on KLC's actual contributions to the OPEB plan relative to the actual contributions of all participating organizations.

For the years ended June 30, 2021 and 2020, KLC recognized OPEB expense of \$625,698 and \$374,032, respectively.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

OPEB Plan, continued

At June 30, 2021, KLC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 914,670	\$ 915,385
Changes in assumption	952,236	5,791
Net difference between projected and actual earnings on OPEB plan investments	293,666	111,707
Changes in proportion and differences between KLC's contributions and proportionate share of contributions	179,357	4,186
KLC's contributions subsequent to the measurement date of June 30, 2020	<u>395,815</u>	<u>-</u>
Total	<u>\$ 2,735,744</u>	<u>\$ 1,037,069</u>

At June 30, 2020, KLC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,136,202
Changes in assumption	1,114,309	7,451
Net difference between projected and actual earnings on OPEB plan investments	24,804	192,061
Changes in proportion and differences between KLC's contributions and proportionate share of contributions	191,586	6,021
KLC's contributions subsequent to the measurement date of June 30, 2019	<u>365,182</u>	<u>-</u>
Total	<u>\$ 1,695,881</u>	<u>\$ 1,341,735</u>

The deferred outflows of resources related to KLC's contributions to the OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. The deferred inflows of resources related to the net difference between projected and actual earnings on OPEB plan investments are amortized and recognized in OPEB expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized and recognized in OPEB expense over the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan which is determined to be approximately 4.94 years for non-hazardous employees.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

OPEB Plan, continued

The net increase (decrease) in OPEB expense for future years related to the amortization of deferred inflows and outflows of resources is as follows:

Year ending June 30:	
2022	\$ 343,968
2023	397,817
2024	294,558
2025	272,986
2026	<u>(6,469)</u>
Total	\$ <u>1,302,860</u>

Actuarial assumptions - For financial reporting the actuarial valuation as of June 30, 2020, was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled forward from the valuation date (June 30, 2019) to the plan's fiscal year ended June 30, 2020, using generally accepted actuarial principles.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

OPEB Plan, continued

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2020:

Inflation	2.30 percent
Payroll growth rate	2.0 percent for CERS non-hazardous
Salary increases	3.30 to 10.30 percent, varies by service
Investment rate of return	6.25 percent

Healthcare trend rates:

Pre – 65 Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

Post – 65 Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

The mortality table used for active members is PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is the system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Discount Rate - The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34% for the non-hazardous fund. The projection of cash flows used to determine the discount rate of 5.34% for non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the pension section above.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

6. Retirement and OPEB Plans, continued

OPEB Plan, continued

Sensitivity of KLC's proportionate share of the net OPEB liability to changes in the discount rate - The following presents KLC's proportionate share of the net OPEB liability calculated using the discount rate of 5.34%, as well as what KLC's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.34%) or 1 percentage point higher (6.34%) than the current discount rate:

	1% Decrease (4.34%)	Current Discount Rate (5.34%)	1% Increase (6.34%)
KLC's share of the net OPEB liability	\$ 7,033,097	\$ 5,474,478	\$ 4,194,332

Sensitivity of KLC's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates - The following presents KLC's proportionate share of the net OPEB liability, as well as what KLC's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
KLC's share of the net OPEB liability	\$ 4,238,614	\$ 5,474,478	\$ 6,974,228

7. Administration Fees

Revenues for the years ended June 30, 2021 and 2020 include administrative fees and commissions from the following related parties, together with receivables and payables due to and from these affiliates:

	Fees and Commissions		Receivables and (Payables)	
	2021	2020	2021	2020
KLCIS	\$ 6,121,341	\$ 6,459,729	\$ (84,608)	\$ (32,621)
KLCWCT	2,292,270	2,354,914	(152,233)	130,097
KLCUCRT	121,229	125,860	3,958	1,286
KBC	652,207	500,579	-	-
KBDC	54,895	93,398	-	-
KLCFT	89,959	482,859	204	201

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

7. Administration Fees, continued

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

KLC has an administrative agreement with KBC to provide monitoring of bond proceeds, origination of financing agreements, servicing of financing agreements, and other administrative services, in exchange for an administrative fee. This fee is comprised of an initial issuance fee and a financing fee equal to 0.25% of the aggregate unpaid principal components of all financing payments calculated on a quarterly basis, payable to the extent that monies are available in KBC's reserve funds. For the years ended June 30, 2021 and 2020, KBC issued approximately \$76.6 million and \$35.5 million, respectively, in bonds. The agreement is subject to termination by either party with 30 days written notice. The President and Second Vice President of KLC serve as members, non-voting and voting, respectively, of the Board of Trustees of KBC and the KLC Executive Board appoints the remaining four members of KBC's Board of Trustees.

KLC provides similar services for commensurate fees to KBDC. The program was developed to allow local governments to support economic development projects issued by 501(c)(3) entities. For the years ended June 30, 2021 and 2020, KBDC issued approximately \$89.0 million and \$119.7 million, respectively, in bonds. The agreement is subject to termination by either party with 30 days written notice. The President and Second Vice President of KLC serve as members, non-voting and voting, respectively, of the Board of Trustees of KBDC and the KLC Executive Board appoints the remaining four members of KBDC's Board of Trustees.

KLC functions as the program administrator for KLCFT, which provides tax-exempt financing to members of KLC. In exchange for administrative services performed KLCFT pays KLC an administrative fee. Additionally, KLC finances three lease agreements through the KLCFT, with outstanding principal balances of \$1,273,147 and \$1,605,292, as of June 30, 2021 and 2020, respectively.

KLC also functions as the program administrator for KLCIPP, which provides pooled investment services to local governmental entities. The KLC Executive Board appoints the members of KLCIPP's Board of Trustees. KLC did not receive an administrative fee for the years ended June 30, 2021 or 2020.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

8. Operating Expenses

Operating expenses for the years ended June 30, 2021 and 2020 by natural classification are as follows:

	<u>2021</u>	<u>2020</u>
Salaries	\$ 6,665,441	\$ 7,212,577
Retirement	3,763,960	3,586,470
Employee benefits	1,105,097	1,118,055
Professional services	569,565	398,364
Payroll taxes	473,799	494,080
Depreciation and amortization	398,136	413,431
Legislative services	247,036	237,190
Meetings	140,259	269,819
Other expenses	126,580	151,038
Telephones	117,948	122,870
Building management	112,372	96,161
Program and development	97,713	167,926
Insurance	88,582	115,730
Office supplies	86,935	77,454
Dues	66,464	69,426
Travel	62,806	115,015
Utilities	53,834	55,849
Publications	43,497	37,668
Postage	27,939	33,016
Bond administration	<u>7,575</u>	<u>9,395</u>
	\$ <u>14,255,538</u>	\$ <u>14,781,534</u>

Operating expenses for the years ended June 30, 2021 and 2020 by functional classification are as follows:

	<u>2021</u>	<u>2020</u>
Administrative and general	\$ 6,723,615	\$ 6,462,929
Member insurance services	5,481,968	5,951,076
Legislative services	1,703,765	1,873,391
Member financial services	246,587	276,450
Member meeting and training services	<u>99,603</u>	<u>217,688</u>
	\$ <u>14,255,538</u>	\$ <u>14,781,534</u>

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

9. Building Expenses

Building expenses for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Depreciation and amortization	\$ 298,478	\$ 363,357
Building management	269,256	231,270
Utilities	123,224	128,605
Other expenses	<u>26,802</u>	<u>3,007</u>
	<u>\$ 717,760</u>	<u>\$ 726,239</u>

**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***

Report of Independent Auditors

Board of Directors
Kentucky League of Cities, Inc. and Subsidiaries
Lexington, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Kentucky League of Cities, Inc and Subsidiaries (KLC), as of and for the year ended June 30, 2021, and the related notes to the consolidated financial statements, which comprise KLC's basic consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated September 14, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KLC's internal control. Accordingly, we do not express an opinion on the effectiveness of KLC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

Board of Directors
Kentucky League of Cities, Inc. and Subsidiaries
Report of Independent Auditors, continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KLC's 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 KLC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KLC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
September 14, 2021

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Consolidating Statement of Net Position

June 30, 2021

Assets	KLC	KLCIA	KLCPCF	Consolidating Entries	Consolidated Total
Current assets:					
Cash and cash equivalents	\$ 1,558,042	\$ 25,942	\$ -	\$ -	\$ 1,583,984
Investments	14,497,915	419,312	161,430	(103,584)	14,975,073
Accounts receivable	50,492	236,924	-	-	287,416
Prepaid expenses and other assets	182,993	20,890	-	-	203,883
Other receivables	321,287	7,760	-	-	329,047
Due from related parties	601,971	356,146	-	(589,699)	368,418
Total current assets	17,212,700	1,066,974	161,430	(693,283)	17,747,821
Capital assets, net	5,498,926	-	-	-	5,498,926
Total assets	\$ 22,711,626	\$ 1,066,974	\$ 161,430	\$ (693,283)	\$ 23,246,747
Deferred Outflows of Resources					
Deferred amount related to pension plan	\$ 3,354,878	\$ -	\$ -	\$ -	\$ 3,354,878
Deferred amount related to OPEB	2,735,744	-	-	-	2,735,744
Total deferred outflows of resources	\$ 6,090,622	\$ -	\$ -	\$ -	\$ 6,090,622

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Consolidating Statement of Net Position, continued

June 30, 2021

	KLC	KLCIA	KLCPFC	Consolidating Entries	Consolidated Total
Liabilities					
Current liabilities:					
Accounts payable	\$ 336,686	\$ 54,664	\$ -	\$ -	\$ 391,350
Accrued liabilities	1,216,096	310	-	-	1,216,406
Unearned revenue	432,070	26,452	-	-	458,522
Due to related parties	595,463	595,333	-	(589,699)	601,097
Current maturities of note payable	65,404	-	-	-	65,404
Current maturities of bond payable	<u>341,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>341,982</u>
Total current liabilities	2,987,701	676,759	-	(589,699)	3,074,761
Note payable, net of current maturities	456,739	-	-	-	456,739
Bond payable, net of current maturities	931,165	-	-	-	931,165
Net pension liability	17,393,915	-	-	-	17,393,915
Net OPEB liability	<u>5,474,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,474,478</u>
Total liabilities	<u>\$ 27,243,998</u>	<u>\$ 676,759</u>	<u>\$ -</u>	<u>\$ (589,699)</u>	<u>\$ 27,331,058</u>
Deferred Inflows of Resources					
Deferred amount related to pension plan	\$ 318,707	\$ -	\$ -	\$ -	\$ 318,707
Deferred amount related to OPEB	<u>1,037,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,037,069</u>
Total deferred inflows of resources	<u>\$ 1,355,776</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,355,776</u>
Net Position					
Invested in capital assets, net of related debt	\$ 3,703,636	\$ -	\$ -	\$ -	\$ 3,703,636
Unrestricted and assigned by the KLC Executive Board for: future city advocacy and programming in lieu of dues increase	500,000	-	-	-	500,000
Unrestricted and assigned by the KLC Executive Board for: capital projects	342,554	-	-	-	342,554
Unrestricted and unassigned, available for general activities	<u>(4,343,716)</u>	<u>390,215</u>	<u>161,430</u>	<u>(103,584)</u>	<u>(3,895,655)</u>
Total net position	<u>\$ 202,474</u>	<u>\$ 390,215</u>	<u>\$ 161,430</u>	<u>\$ (103,584)</u>	<u>\$ 650,535</u>

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Consolidating Statement of Net Position

June 30, 2020

Assets	<u>KLC</u>	<u>KLCIA</u>	<u>KLCPFC</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
Current assets:					
Cash and cash equivalents	\$ 1,999,695	\$ 75,989	\$ -	\$ -	\$ 2,075,684
Investments	10,771,614	416,837	154,539	(103,584)	11,239,406
Accounts receivable	21,312	98,341	-	-	119,653
Prepaid expenses and other assets	234,256	19,429	-	-	253,685
Other receivables	280,156	7,887	-	-	288,043
Due from related parties	<u>456,631</u>	<u>2,857</u>	<u>-</u>	<u>(308,833)</u>	<u>150,655</u>
Total current assets	\$ 13,763,664	\$ 621,340	\$ 154,539	\$ (412,417)	\$ 14,127,126
Capital assets, net	<u>5,732,064</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,732,064</u>
Total assets	<u>\$ 19,495,728</u>	<u>\$ 621,340</u>	<u>\$ 154,539</u>	<u>\$ (412,417)</u>	<u>\$ 19,859,190</u>
 Deferred Outflows of Resources					
Deferred amount related to pension plan	\$ 4,012,010	\$ -	\$ -	\$ -	\$ 4,012,010
Deferred amount related to OPEB	<u>1,695,881</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,695,881</u>
Total deferred outflows of resources	<u>\$ 5,707,891</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,707,891</u>

KENTUCKY LEAGUE OF CITIES, INC AND SUBSIDIARIES

Consolidating Statement of Net Position, continued

June 30, 2020

	<u>KLC</u>	<u>KLCIA</u>	<u>KLCPFC</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
Liabilities					
Current liabilities:					
Accounts payable	\$ 214,449	\$ 6,331	\$ -	\$ -	\$ 220,780
Accrued liabilities	1,169,513	12,102	-	-	1,181,615
Unearned revenue	394,253	25,148	-	-	419,401
Due to related parties	47,966	312,559	-	(308,833)	51,692
Current maturities of note payable	62,942	-	-	-	62,942
Current maturities of bond payable	<u>332,145</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,145</u>
Total current liabilities	2,221,268	356,140	-	(308,833)	2,268,575
Note payable, net of current maturities	522,143	-	-	-	522,143
Bond payable, net of current maturities	1,273,147	-	-	-	1,273,147
Net pension liability	15,750,291	-	-	-	15,750,291
Net OPEB liability	<u>3,765,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,765,712</u>
Total liabilities	<u>\$ 23,532,561</u>	<u>\$ 356,140</u>	<u>\$ -</u>	<u>\$ (308,833)</u>	<u>\$ 23,579,868</u>
Deferred Inflows of Resources					
Deferred amount related to pension plan	\$ 622,794	\$ -	\$ -	\$ -	\$ 622,794
Deferred amount related to OPEB	<u>1,341,735</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,341,735</u>
Total deferred inflows of resources	<u>\$ 1,964,529</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,964,529</u>
Net Position					
Invested in capital assets, net of related debt	\$ 3,541,687	\$ -	\$ -	\$ -	\$ 3,541,687
Unrestricted and assigned by the KLC Executive Board for: future city advocacy and programming in lieu of dues increase	500,000	-	-	-	500,000
Unrestricted and assigned by the KLC Executive Board for: capital projects	752,050	-	-	-	752,050
Unrestricted and unassigned, available for general activities	<u>(5,087,208)</u>	<u>265,200</u>	<u>154,539</u>	<u>(103,584)</u>	<u>(4,771,053)</u>
Total net position	<u>\$ (293,471)</u>	<u>\$ 265,200</u>	<u>\$ 154,539</u>	<u>\$ (103,584)</u>	<u>\$ 22,684</u>

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2021

	KLC	KLCIA	KLCPFC	Consolidating Entries	Consolidated Total
Operating revenue:					
Administrative fee - KLCIS	\$ 5,066,183	\$ -	\$ -	\$ -	\$ 5,066,183
Administrative fee - KLCWCT	2,001,957	-	-	-	2,001,957
Administrative fee - Bond Pools	797,061	-	-	-	797,061
Administrative fee - KLCUCRT	121,229	-	-	-	121,229
Commissions	2,510,162	2,642,276	-	(2,510,162)	2,642,276
Member dues	538,262	-	-	-	538,262
Member meeting and training income	232,395	-	-	-	232,395
Publication income	24,690	-	-	-	24,690
Other	427,854	20,167	-	-	448,021
Total operating revenue	11,719,793	2,662,443	-	(2,510,162)	11,872,074
Operating expenses	14,132,130	2,633,570	-	(2,510,162)	14,255,538
Operating (loss) income	(2,412,337)	28,873	-	-	(2,383,464)
Nonoperating revenues (expenses):					
Net rental income	1,146,727	-	-	-	1,146,727
Interest and investment income (loss)	2,535,882	96,142	6,891	-	2,638,915
Interest expense	(56,508)	-	-	-	(56,508)
Loss on disposal of capital assets	(59)	-	-	-	(59)
Building expenses	(717,760)	-	-	-	(717,760)
Total nonoperating revenues (expenses)	2,908,282	96,142	6,891	-	3,011,315
Change in net position	495,945	125,015	6,891	-	627,851
Net position, beginning of year	(293,471)	265,200	154,539	(103,584)	22,684
Net position, end of year	\$ 202,474	\$ 390,215	\$ 161,430	\$ (103,584)	\$ 650,535

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Consolidating Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2020

	<u>KLC</u>	<u>KLCIA</u>	<u>KLCPFC</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
Operating revenue:					
Administrative fee - KLCIS	\$ 5,436,789	\$ -	\$ -	\$ -	\$ 5,436,789
Administrative fee - KLCWCT	2,057,309	-	-	-	2,057,309
Administrative fee - Bond Pools	1,076,335	-	-	-	1,076,335
Administrative fee - KLCUCRT	125,860	-	-	-	125,860
Commissions	2,418,154	2,545,426	-	(2,418,154)	2,545,426
Member dues	538,898	-	-	-	538,898
Member meeting and training income	288,513	-	-	-	288,513
Publication income	7,613	-	-	-	7,613
Other	<u>458,981</u>	<u>21,433</u>	<u>-</u>	<u>-</u>	<u>480,414</u>
Total operating revenue	12,408,452	2,566,859	-	(2,418,154)	12,557,157
Operating expenses	<u>14,670,478</u>	<u>2,529,170</u>	<u>40</u>	<u>(2,418,154)</u>	<u>14,781,534</u>
Operating (loss) income	(2,262,026)	37,689	(40)	-	(2,224,377)
Nonoperating revenues (expenses):					
Net rental income	1,086,946	-	-	-	1,086,946
Interest and investment income	337,541	20,648	(720)	-	357,469
Interest expense	(83,890)	-	-	-	(83,890)
Building expenses	<u>(726,239)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(726,239)</u>
Total nonoperating revenue	<u>614,358</u>	<u>20,648</u>	<u>(720)</u>	<u>-</u>	<u>634,286</u>
Change in net position	(1,647,668)	58,337	(760)	-	(1,590,091)
Net position, beginning of year	<u>1,354,197</u>	<u>206,863</u>	<u>155,299</u>	<u>(103,584)</u>	<u>1,612,775</u>
Net position, end of year	<u>\$ (293,471)</u>	<u>\$ 265,200</u>	<u>\$ 154,539</u>	<u>\$ (103,584)</u>	<u>\$ 22,684</u>

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Schedules of Required Supplementary Information

Schedules of the Proportionate Share of the Net Pension Liability

County Employees Retirement System (CERS) Deferred Compensation Plan
(Amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Portion of the net pension liability	0.23 %	0.22 %	0.21 %	0.21 %	0.20 %	0.19 %	0.20 %			
Proportionate share of the net pension liability	\$ 17,394	\$ 15,750	\$ 13,037	\$ 12,163	\$ 10,030	\$ 8,292	\$ 6,466			
Covered- Employee Payroll *	\$ 6,169	\$ 5,818	\$ 5,498	\$ 5,277	\$ 4,962	\$ 4,591	\$ 4,539			
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	281.96 %	270.71 %	237.12 %	230.49 %	202.14 %	167.11 %	140.84 %			
Plan fiduciary net position as a percentage of the total pension liability	47.81 %	50.45 %	53.54 %	53.30 %	55.50 %	59.97 %	66.80 %			

* The amounts presented for each fiscal year were determined as of the measurement date of the net pension liability, which is as of the prior fiscal year end.

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Schedules of Required Supplementary Information

Schedules of the Proportionate Share of the Net OPEB Liability

County Employees Retirement System (CERS) Deferred Compensation Plan
(Amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Portion of the net OPEB liability	0.23 %	0.22 %	0.21 %	0.21 %						
Proportionate share of the net OPEB liability	\$ 5,474	\$ 3,766	\$ 3,801	\$ 4,177						
Covered- Employee Payroll *	\$ 6,169	\$ 5,818	\$ 5,498	\$ 5,277						
Proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	88.73 %	64.73 %	69.13 %	79.15 %						
Plan fiduciary net position as a percentage of the total OPEB liability	51.67 %	60.44 %	57.62 %	52.40 %						

* The amounts presented for each fiscal year were determined as of the measurement date of the net OPEB liability, which is as of the prior fiscal year end.

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Schedules of Required Supplementary Information

Schedules of Pension Contributions

County Employees Retirement System (CERS) Deferred Compensation Plan
(Amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 1,113	\$ 1,191	\$ 944	\$ 796	\$ 736	\$ 633	\$ 631			
Contributions in relation to the contractually required contribution	<u>1,060</u>	<u>1,153</u>	<u>944</u>	<u>805</u>	<u>726</u>	<u>627</u>	<u>588</u>			
Contribution deficiency (excess)	\$ <u>53</u>	\$ <u>38</u>	\$ <u>-</u>	\$ <u>(9)</u>	\$ <u>10</u>	\$ <u>6</u>	\$ <u>43</u>			
Covered-employee payroll	\$ 5,765	\$ 6,169	\$ 5,818	\$ 5,498	\$ 5,277	\$ 4,962	\$ 4,591			
Contributions as a percentage of covered-employee payroll	18.39 %	18.69 %	16.23 %	14.64 %	13.76 %	12.64 %	12.81 %			

See accompanying notes and report of independent auditors.

KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Schedules of Required Supplementary Information

Schedules of OPEB Contributions

County Employees Retirement System (CERS) Deferred Compensation Plan
(Amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 274	\$ 294	306	258						
Contributions in relation to the contractually required contribution	<u>261</u>	<u>284</u>	<u>306</u>	<u>262</u>						
Contribution deficiency (excess)	\$ <u>13</u>	\$ <u>10</u>	\$ <u>-</u>	\$ <u>(4)</u>						
Covered-employee payroll	\$ 5,765	\$ 6,169	\$ 5,818	\$ 5,498						
Contributions as a percentage of covered-employee payroll	4.53 %	4.60 %	5.26 %	4.77 %						

See accompanying notes and report of independent auditors.