



Financial Statements

for

**KENTUCKY LEAGUE OF CITIES
INVESTMENT POOL PLUS**

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

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Report of Independent Auditors

Board of Trustees
Kentucky League of Cities Investment Pool Plus
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky League of Cities Investment Pool Plus (KLCIPP), which comprise the statements of net position as of June 30, 2021 and 2020, the related statements of revenues, expenses and changes in net position 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.

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 audit contained in *Government Auditing Standards*, issued by Comptroller General of United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of KLCIPP 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2022 on our consideration of KLCIPP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KLCIPP's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
January 21, 2022

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Management's Discussion and Analysis (*Unaudited*)

Our discussion and analysis of the Kentucky League of Cities Investment Pool Plus (KLCIPP) provides an overview of KLCIPP's financial activity for the fiscal year ended June 30, 2021. It should be read in conjunction with the financial statements, which begin on page 5.

Using this Annual Report

This report consists of a series of financial statements. The statements of net position on page 5 provides information about KLCIPP as a whole.

Statements of Net Position

Table 1 shows all of the assets and liabilities of KLCIPP and is presented on the accrual basis. Please see additional information included under Statements of Revenues, Expenses and Changes in Net Position. Total assets increased over \$14 million with twelve new members investing approximately \$7.7 million of the total increase.

Table 1
Net Position

	<u>2021</u>	<u>2020</u>
Investments	\$ <u>28,087,409</u>	\$ <u>13,996,848</u>
Total net position	\$ <u>28,087,409</u>	\$ <u>13,996,848</u>

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

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

Statements of Revenues, Expenses and Changes in Net Position

Table 2 shows all the revenues and expenses of KLCIPP and is also presented on the accrual basis. Net investment income increased \$1,325,686 from the prior year due to performance of the market.

Table 2
Changes in Net Position

Years ended June 30,	<u>2021</u>	<u>2020</u>
Investment income, net of investment expenses	\$ <u>1,326,578</u>	\$ <u>892</u>
Changes in net position	\$ <u>1,326,578</u>	\$ <u>892</u>

Description of Current and Expected Conditions

KLCIPP was re-established effective July 1, 2019. Local governments now have new investment options. KLCIPP uses a model that allows each member to invest based on its own financial goals and needs. Members benefit from the program's economies of scale through a reduction in the cost of asset management.

Contacting KLCIPP's Financial Management

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

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Statements of Net Position

June 30, 2021 and 2020

		<u>2021</u>	<u>2020</u>
	Assets		
Investments		\$ <u>28,087,409</u>	\$ <u>13,996,848</u>
	Net position		
Net position - unrestricted		\$ <u>28,087,409</u>	\$ <u>13,996,848</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Investment income	\$ 342,352	\$ 167,854
Net unrealized gain (loss) on investments	1,008,672	(108,447)
Net realized gain (loss) on investments	38,581	(25,197)
Investment fees	<u>(63,027)</u>	<u>(33,318)</u>
Changes in net position	1,326,578	892
Net position, beginning of year	13,996,848	-
Contributions from members	13,137,429	16,042,973
Withdrawals by members	<u>(373,446)</u>	<u>(2,047,017)</u>
Net position, end of year	<u>\$ 28,087,409</u>	<u>\$ 13,996,848</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Investment income received	\$ 342,352	\$ 167,854
Investment fees paid	<u>(63,027)</u>	<u>(33,318)</u>
Net cash provided by operating activities	279,325	134,536
Cash flows from investing activities:		
Purchase of investments, net	<u>(13,043,308)</u>	<u>(14,130,492)</u>
Net cash used in investing activities	(13,043,308)	(14,130,492)
Cash flows from financing activities:		
Contributions from members	13,137,429	16,042,973
Withdrawals by members	<u>(373,446)</u>	<u>(2,047,017)</u>
Net cash provided by financing activities	<u>12,763,983</u>	<u>13,995,956</u>
Net change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>
 Reconciliation of changes in net position to net cash provided by operating activities:		
Changes in net position	\$ 1,326,578	\$ 892
Adjustments:		
Net unrealized (gain) loss on investments	(1,008,672)	108,447
Net realized (gain) loss on investments	<u>(38,581)</u>	<u>25,197</u>
Net cash provided by operating activities	<u>\$ 279,325</u>	<u>\$ 134,536</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Notes to the Financial Statements

1. Description of the Organization

The Kentucky League of Cities Investment Pool Plus (KLCIPP) was organized as a nonprofit trust by the Kentucky League of Cities, Inc. (KLC), effective March 1, 1990. During the 2019 legislative session, House Bill 69 passed, which gives local governments and school districts expanded investment options. The KLCIPP was re-established effective July 1, 2019 as a service to KLC members and their related agencies who contribute funds to the investment pool.

KLCIPP has established five investment funds that are managed and advised by PNC Bank and meet the investment requirements for governmental agencies.

2. Summary of Significant Accounting Policies

The 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 KLCIPP in the preparation of its financial statements:

Basis of Accounting and Presentation

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

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

The accompanying financial statements include solely the accounts of KLCIPP including all programs, activities and functions relating to accumulation and investment of assets and related income necessary to provide benefits required under the terms of KLCIPP agreement.

Investment Valuation and Income Recognition

KLCIPP's investments are stated 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. 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 unrealized gain or loss represents the change in fair value of investments during the year of investments held at year-end. Net realized gain or loss is the cumulative amount of change in fair value of investments sold during the year.

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Risks and Uncertainties

KLCIPP invests in money market and mutual funds. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statements of net position and the statements of revenue, expenses, and changes in net position.

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. 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 KLCIPP will depend on future developments, which are highly uncertain and cannot be predicted.

Participant Accounts

Separate accounts are maintained for each participant. Investment income and fees are credited or charged to participant accounts as received or incurred. Net realized gains and losses are posted to participant accounts as investments are sold. Net unrealized gains and losses from changes in fair value are reflected in participant accounts on a monthly basis.

Income Tax Status

KLCIPP is treated as a tax exempt government trust under Section 115 of the Internal Revenue Code.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through January 21, 2022, the date that the financial statements were available to be issued.

3. Investments

Investments consist of the following five investment funds as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Money market fund	\$ 332,273	\$ -
Dividend focus equity pool	5,704,847	1,876,032
Government bond fund	9,903,503	7,695,225
Corporate bond fund	6,891,058	2,851,359
Equity S&P 500 index fund	<u>5,255,728</u>	<u>1,574,232</u>
	<u>\$ 28,087,409</u>	<u>\$ 13,996,848</u>

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Notes to the Financial Statements, continued

3. Investments, continued

The composition of KLCIPP's investment portfolio must meet certain criteria as set forth in the Kentucky Revised Statues. As of June 30, 2021 and 2020, all investments held by KLCIPP are classified as money market and mutual funds.

4. Fair Value Measurements

KLCIPP classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for investments measured at fair value on a recurring basis:

Money market funds: Valued at cost which approximates fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by KLCIPP are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by KLCIPP are deemed to be actively traded.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while KLCIPP believes its valuation method is 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 following tables set forth by level, within the fair value hierarchy, KLCIPP's investments at fair value as of June 30, 2021 and 2020:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2021</u>				
Money market funds	\$ 332,273	\$ 332,273	\$ -	\$ -
Mutual funds	<u>27,755,136</u>	<u>27,755,136</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>28,087,409</u>	\$ <u>28,087,409</u>	\$ <u>-</u>	\$ <u>-</u>
<u>2020</u>				
Mutual funds	\$ <u>13,996,848</u>	\$ <u>13,996,848</u>	<u>-</u>	<u>-</u>

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Notes to the Financial Statements, continued

5. Related Party Transactions

The following entities are KLCIPP's related entities:

- Kentucky Bond Corporation (KBC)
- Kentucky Bond Development Corporation (KBDC)
- Kentucky League of Cities (KLC)
- Kentucky League of Cities Funding Trust (KLCFT)
- Kentucky League of Cities Insurance Agency (KLCIA)
- Kentucky League of Cities Unemployment Compensation Reimbursement Trust (KLCUCRT)
- Kentucky League of Cities Premium Finance Company (KLCPFC)
- Kentucky League of Cities Insurance Services (KLCIS)
- Kentucky League of Cities Workers Compensation Trust (KLCWCT)
- Kentucky Local Government Health Trust (KLGHT)

KLGHT invested in funds established by KLCIPP during the year ended June 30, 2021. KLC, KLCPFC, KLCUCRT, and KLGHT funds are exchanged in the normal course of business and no fees or other transactions are processed between the related parties.

The cost basis and fair value of investments for KLC, KLCPFC, KLCUCRT, and KLGHT are as follows as of June 30, 2021 and 2020:

<u>2021</u>	<u>Cost Basis</u>	<u>Fair Value</u>
KLC	\$ 2,028,096	\$ 2,220,185
KLCPFC	156,291	161,430
KLCUCRT	8,537,136	8,791,462
KLGHT	<u>758,373</u>	<u>777,185</u>
Total	<u>\$ 11,479,896</u>	<u>\$ 11,950,262</u>
<u>2020</u>	<u>Cost Basis</u>	<u>Fair Value</u>
KLC	\$ 1,004,337	\$ 998,252
KLCPFC	154,052	154,539
KLCUCRT	<u>7,913,299</u>	<u>7,880,671</u>
Total	<u>\$ 9,071,688</u>	<u>\$ 9,033,462</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 Trustees
Kentucky League of Cities Investment Pool Plus
Lexington, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kentucky League of Cities Investment Pool Plus (KLCIPP) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise KLCIPP's basic financial statements, and have issued our report thereon dated January 21, 2022.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 Trustees
Kentucky League of Cities Investment Pool Plus
Lexington, Kentucky

Compliance and Other Matters

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

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
January 21, 2022