



Financial Statements

for

**KENTUCKY LEAGUE OF CITIES
INVESTMENT POOL PLUS**

Years Ended June 30, 2022 and 2021
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 Audit of the Financial Statements

Opinion

We have audited the financial statements of Kentucky League of Cities Investment Pool Plus (KLCIPP), which comprise the statements of net position as of June 30, 2022 and 2021, the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the net position of KLCIPP as of June 30, 2022 and 2021, and the change 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 (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of KLCIPP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about KLCIPP's ability to continue as a going concern, for twelve months beyond the financial statement date including any currently known information that may raise substantial doubt shortly thereafter.

Report on the Audit of the Financial Statements, continued

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but it not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 KLCIPP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KLCIPP's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2023 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 effectiveness of KLCIPP'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 KLCIPP's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
January 11, 2023

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, 2022. It should be read in conjunction with the financial statements, which begin on page 6.

Using this Annual Report

This report consists of the financial statements and notes to the financial statements.

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 Change in Net Position. Total assets increased over \$30 million with twenty-six new accounts investing approximately \$35 million. As of June 30, 2022, KLCIPP has a total membership of thirty-three participant accounts.

Table 1
Net Position

	<u>2022</u>	<u>2021</u>
Investments	\$ <u>58,608,022</u>	\$ <u>28,087,409</u>
Total net position	\$ <u>58,608,022</u>	\$ <u>28,087,409</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 decreased \$5,463,204 from the prior year due to performance of the market.

Table 2
Change in Net Position

Years ended June 30,	<u>2022</u>	<u>2021</u>
Investment (loss) income, net of investment expenses	\$ <u>(4,136,626)</u>	\$ <u>1,326,578</u>
Change in net position	\$ <u>(4,136,626)</u>	\$ <u>1,326,578</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 Kentucky League of Cities' (KLC) 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 KLC's office at 100 East Vine Street, Suite 800, Lexington, KY 40507.

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Statements of Net Position

June 30, 2022 and 2021

		<u>2022</u>	<u>2021</u>
	Assets		
Investments		\$ <u>58,608,022</u>	\$ <u>28,087,409</u>
	Net position		
Net position - unrestricted		\$ <u>58,608,022</u>	\$ <u>28,087,409</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Statements of Revenues, Expenses and Change in Net Position

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Investment income	\$ 920,788	\$ 342,352
Net unrealized (loss) gain on investments	(4,552,935)	1,008,672
Net realized (loss) gain on investments	(351,565)	38,581
Investment fees	<u>(152,914)</u>	<u>(63,027)</u>
Change in net position	(4,136,626)	1,326,578
Net position, beginning of year	28,087,409	13,996,848
Contributions from members	35,768,590	13,137,429
Withdrawals by members	<u>(1,111,351)</u>	<u>(373,446)</u>
Net position, end of year	\$ <u>58,608,022</u>	\$ <u>28,087,409</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Investment income received	\$ 920,788	\$ 342,352
Investment fees paid	<u>(152,914)</u>	<u>(63,027)</u>
Net cash provided by operating activities	767,874	279,325
Cash flows from investing activities:		
Purchase of investments, net	(35,425,113)	(13,043,308)
Cash flows from financing activities:		
Contributions from members	35,768,590	13,137,429
Withdrawals by members	<u>(1,111,351)</u>	<u>(373,446)</u>
Net cash provided by financing activities	<u>34,657,239</u>	<u>12,763,983</u>
Net change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>
 Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ (4,136,626)	\$ 1,326,578
Adjustments:		
Net unrealized loss (gain) on investments	4,552,935	(1,008,672)
Net realized loss (gain) on investments	<u>351,565</u>	<u>(38,581)</u>
Net cash provided by operating activities	<u>\$ 767,874</u>	<u>\$ 279,325</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 change in net position.

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 11, 2023, 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Money market fund	\$ 7,191,916	\$ 332,273
Dividend focus equity pool	14,229,161	5,704,847
Government bond fund	14,768,388	9,903,503
Corporate bond fund	12,223,669	6,891,058
Equity S&P 500 index fund	<u>10,194,888</u>	<u>5,255,728</u>
	<u>\$ 58,608,022</u>	<u>\$ 28,087,409</u>

The composition of KLCIPP's investment portfolio must meet certain criteria as set forth in the Kentucky Revised Statues. As of June 30, 2022 and 2021, all investments held by KLCIPP are classified as money market and mutual funds.

KENTUCKY LEAGUE OF CITIES INVESTMENT POOL PLUS

Notes to the Financial Statements, continued

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 fund: 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, 2022 and 2021:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2022</u>				
Money market fund	\$ 7,191,913	\$ 7,191,913	\$ -	\$ -
Mutual funds	<u>51,416,109</u>	<u>51,416,109</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 58,608,022</u>	<u>\$ 58,608,022</u>	<u>\$ -</u>	<u>\$ -</u>
<u>2021</u>				
Money market fund	\$ 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>

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, 2022. 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, 2022 and 2021:

<u>2022</u>	<u>Cost Basis</u>	<u>Fair Value</u>
KLC	\$ 2,058,917	\$ 2,067,883
KLCPFC	158,049	151,179
KLCUCRT	10,381,150	9,830,709
KLGHT	<u>2,281,740</u>	<u>2,080,384</u>
Total	<u>\$ 14,879,856</u>	<u>\$ 14,130,155</u>
<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>

**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), which comprise the statement of net position, as of June 30, 2022, the related statements of revenue, expense and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2023.

Report on 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 opinion 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 or significant deficiencies may exist that have not been identified.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether KLCIPP'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 financial statements. 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 11, 2023