



Consolidated Financial Statements

for

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

Year Ended June 30, 2023  
with Report of Independent Auditors

## CONTENTS

	<u>Pages</u>
Report of Independent Auditors.....	1 - 3
Management's Discussion and Analysis ( <i>Unaudited</i> ).....	4 - 6
Consolidated Financial Statements:	
Statement of Net Position.....	7 - 8
Statement of Revenues, Expenses and Changes in Net Position.....	9
Statement of Cash Flows.....	10 - 11
Notes to the Consolidated Financial Statements.....	12 - 34
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	35 - 36
Consolidating Schedules:	
Consolidating Statement of Net Position.....	37 - 38
Consolidating Statement of Revenues, Expenses and Changes in Net Position.....	39
Required Supplementary Information:	
Schedules of the Proportionate Share of the Net Pension Liability.....	40
Schedules of the Proportionate Share of the Net OPEB Liability.....	41
Schedules of Pension Contributions.....	42
Schedules of OPEB Contributions.....	43
Notes to the Required Supplementary Information.....	44 - 45

## Report of Independent Auditors

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

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Kentucky League of Cities, Inc. and Subsidiaries (collectively, KLC) which comprise the consolidated statement of net position as of June 30, 2023, the related consolidated statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of KLC as of June 30, 2023, and the change in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### *Basis for Opinion*

We conducted our audit 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 the Comptroller General of the 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 KLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 KLC'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 Responsibilities 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 is 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 include 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 KLC'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 KLC'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.

**Report on the Audit of the Financial Statements, continued**

***Required Supplementary Information***

GAAP requires that the Management's Discussion and Analysis on pages 4 - 6 and the Supplementary Pension and OPEB Information on pages 40 - 45 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 financial statements, and other knowledge we obtained during our audit of the 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.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise KLC's financial statements. The consolidating schedules on pages 37 - 39 are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the consolidating schedules are fairly stated, in all material respects, in relation to the financial statements 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, 2023 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, 2023

## 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, 2023. It should be read in conjunction with the consolidated financial statements, which begin on page 7.

#### Using this Annual Report

This report consists of a series of financial statements. The consolidated statement of net position on pages 7 - 8 provides information about the Organization as a whole.

#### 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.

#### Adoption of New Accounting Standard

Effective July 1, 2022, KLC adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs) (GASB 96). The objective of this statement is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for SBITAs, improving the comparability of financial statements among governments that have entered into SBITAs, and enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The statement requires recognition of certain right-to-use subscription assets and subscription liabilities for SBITAs and recognition of inflows of resources or outflows of resources based on the payment provisions of the agreement.

The adoption of this new standard had no significant impact on the consolidated financial statements of KLC and there was no adjustment necessary to the opening balance of net position as a result of the implementation of GASB 96.

#### 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.

**KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis (Unaudited), continued**

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 \$1,934,789 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 increase in liabilities is mainly due to an increase in net pension liability. The reduction in deferred inflows of resources is largely due to pension accounting under GASB 68 (see Notes 2 and 6 for further details).

**Table 1**  
**Net Position**

	<u>2023</u>	<u>2022</u>
Current assets	<b>\$ 18,435,916</b>	\$ 17,397,263
Capital and other assets	<b><u>6,903,305</u></b>	<u>7,557,494</u>
Total assets	<b>25,339,221</b>	24,954,757
Deferred outflows of resources	<b><u>3,648,018</u></b>	<u>4,137,814</u>
Combined assets and deferred outflows of resources	<b>28,987,239</b>	29,092,571
Current liabilities	<b>2,891,055</b>	2,988,480
Long-term liabilities	<b>662,355</b>	992,559
Net pension liability	<b>15,209,772</b>	13,899,911
Net post-employment benefits other than pension liability	<b><u>4,151,838</u></b>	<u>4,172,735</u>
Total liabilities	<b>22,915,020</b>	22,053,685
Deferred inflows of resources	<b><u>4,686,449</u></b>	<u>7,587,905</u>
Combined liabilities and deferred inflows of resources	<b><u>27,601,469</u></b>	<u>29,641,590</u>
Total net position	<b><u>\$ 1,385,770</u></b>	<u>\$ (549,019)</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 increased \$1,778,176 mainly from administrative fees. Total operating expenses increased \$1,008,645 from the prior year primarily due to the increase in member insurance services. The change in non-operating revenues (expenses) is primarily due to investment market conditions, which resulted in an unrealized gain in current year while there was an unrealized loss in the prior year.

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

	<u>2023</u>	<u>2022</u>
Operating revenue:		
Administrative fees	\$ 9,298,352	\$ 8,314,357
Commissions	2,913,412	2,707,222
Member dues	770,464	652,799
Member meeting and training income	543,232	212,198
Publication income	27,102	7,473
Other	<u>601,538</u>	<u>481,875</u>
Total operating revenue	<b>14,154,100</b>	12,375,924
Operating expenses:		
Administrative and general	4,255,682	4,466,819
Member insurance services	6,536,757	5,761,334
Legislative services	2,376,894	2,139,980
Member financial services	282,015	250,971
Member meeting and training services	<u>295,181</u>	<u>118,780</u>
Total operating expenses	<b>13,746,529</b>	12,737,884
Non-operating revenues (expenses), net	<u>1,527,218</u>	<u>(837,594)</u>
Change in net position	<b>\$ <u>1,934,789</u></b>	<b>\$ <u>(1,199,554)</u></b>



# KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

## Consolidated Statement of Net Position

June 30, 2023

### Assets

Current assets:	
Cash and cash equivalents	\$ 1,968,855
Investments	14,414,351
Accounts receivable	317,773
Current portion of leases receivable	893,045
Prepaid expenses and other assets	321,835
Other receivables	432,038
Due from related parties	<u>88,019</u>
Total current assets	18,435,916
Leases receivable, net of current portion	1,539,520
Capital assets, net	<u>5,363,785</u>
Total assets	<u>\$ 25,339,221</u>

### Deferred Outflows of Resources

Deferred amount related to pension plan	\$ 1,945,664
Deferred amount related to OPEB	<u>1,702,354</u>
Total deferred outflows of resources	<u>\$ 3,648,018</u>

### Liabilities

Current liabilities:	
Accounts payable	\$ 482,457
Accrued liabilities	1,047,442
Unearned revenue	637,064
Due to related parties	212,013
Current maturities of note payable	70,583
Current maturities of bonds payable	362,578
Current maturities of leases payable	31,329
Current maturities of SBITA liability	<u>47,589</u>
Total current liabilities	2,891,055
Note payable, net of current maturities	318,195
Bonds payable, net of current maturities	216,454
Leases payable, net of current maturities	90,472
SBITA liability, net of current maturities	37,234
Net pension liability	15,209,772
Net OPEB liability	<u>4,151,838</u>
Total liabilities	<u>\$ 22,915,020</u>

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

Consolidated Statement of Net Position, continued

June 30, 2023

**Deferred Inflows of Resources**

Deferred amount related to pension plan	\$ 656,926
Deferred amount related to OPEB	1,736,346
Deferred amount related to rental income	<u>2,293,177</u>
Total deferred inflows of resources	\$ <u>4,686,449</u>

**Net Position**

Invested in capital assets, net of related debt	\$ 4,189,351
Unrestricted and assigned by the KLC Executive Board for future city advocacy and programming in lieu of dues increase	375,815
Unrestricted and assigned by the KLC Executive Board for capital projects	42,500
Unrestricted and unassigned, available for general activities	<u>(3,221,896)</u>
Total net position	\$ <u>1,385,770</u>

*See accompanying notes.*

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### Consolidated Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2023

Operating revenue:	
Administrative fee - KLCIS	\$ 5,747,218
Administrative fee - KLCWCT	2,557,470
Administrative fee - Bond Pools	869,216
Administrative fee - KLCUCRT	124,448
Commissions	2,913,412
Member dues	770,464
Member meeting and training income	543,232
Publication income	27,102
Other	<u>601,538</u>
Total operating revenue	14,154,100
Operating expenses	<u>13,746,529</u>
Operating income	407,571
Non-operating revenues (expenses):	
Rental income	1,243,893
Interest and investment income	1,332,402
Interest expense	(63,434)
Loss on disposal of capital assets	(163,603)
Building expenses	<u>(822,040)</u>
Total non-operating revenues	<u>1,527,218</u>
Change in net position	1,934,789
Net position, beginning of year	<u>(549,019)</u>
Net position, end of year	<u>\$ 1,385,770</u>

*See accompanying notes.*

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### Consolidated Statement of Cash Flows

Year ended June 30, 2023

#### Cash flows from operating activities:

Cash received from members and affiliates	\$ 14,196,565
Cash paid to suppliers and employees	<u>(13,719,339)</u>

Net cash provided by operating activities	477,226
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#### Cash flows from non-capital financing activities:

Advances to related parties, net	(223,792)
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#### Cash flows from capital and related financing activities:

Capital expenditures	(819,356)
Principal payments on bonds payable	(352,134)
Principal payments on note payable	(67,961)
Principal payments on leases payable	(26,797)
Principal payments on SBITA liability	(34,247)
Interest paid	<u>(63,434)</u>

Net cash used in capital and related financing activities	(1,363,929)
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#### Cash flows from investing activities:

Proceeds from sale and maturity of investments	3,359,521
Interest and income on investments	146,607
Purchase of investments	(3,366,228)
Proceeds from rental activities, net	<u>659,487</u>

Net cash provided by investing activities	<u>799,387</u>
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Net decrease in cash and cash equivalents	(311,108)
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Cash and cash equivalents, beginning of year	<u>2,279,963</u>
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Cash and cash equivalents, end of year	<u>\$ 1,968,855</u>
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**KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES**

Consolidated Statement of Cash Flows, continued

Year ended June 30, 2023

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$ 407,571
Adjustments:	
Depreciation and amortization	441,167
Pension liability, net of deferred inflows and outflows of resources	(590,075)
OPEB liability, net of deferred inflows and outflows of resources	338,910
Increase (decrease) in cash due to changes in:	
Accounts receivable	(15,228)
Prepaid expenses and other assets	(42,601)
Other receivables	(33,430)
Accounts payable	6,597
Accrued liabilities	(126,808)
Unearned revenue	<u>91,123</u>
Net cash provided by operating activities	<u>\$ 477,226</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, the League. KLCPPFC was organized to finance insurance premiums for member cities. The operations of KLCPPFC became inactive as of June 30, 2019. In June 2023, the KLCPPFC Board of Directors voted to dissolve KLCPPFC.

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.

#### Adoption of New Accounting Standard

Effective July 1, 2022, KLC adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)* (GASB 96). The objective of this statement is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for SBITAs, improving the comparability of financial statements among governments that have entered into SBITAs, and enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The statement requires recognition of certain right-to-use subscription assets and subscription liabilities for SBITAs and recognition of inflows of resources or outflows of resources based on the payment provisions of the agreement.

Net position has not been impacted as a result of the implementation of GASB 96. Effective July 1, 2022, upon adoption of GASB 96, KLC recorded subscription liabilities and subscription right-to-use assets of \$104,905, representing the present value of payments expected to be made during the remaining term of the SBITAs.

#### 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.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### 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.

#### 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 non-operating revenue (expense).

#### Leases

Leases are contracts that convey control of a right to use another entity's non-financial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.

#### *Short-term Leases*

For leases with a maximum term of 12-months or less at the commencement date of the lease, KLC recognizes rental income or lease expense as amounts become due under the lease agreement.

#### *KLC as Lessee*

Lease liabilities on the consolidated statement of net position represent the present value of payments expected to be made during the lease term. Lease payments are discounted to present value using the rate implicit in the lease, when it can be readily determined, or KLC's incremental borrowing rate at the commencement of the lease. In subsequent years, amortization of the discount is included in interest expense in the consolidated statement of revenues, expenses and changes in net position.



## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### Leases, continued

##### *KLC as Lessee, continued*

Variable payments based on future performance of KLC, usage of the underlying asset or criteria other than an index or rate are not included in the measurement of the lease liability. Those variable payments are recognized as lease expense in the period in which the obligation for those payments is incurred.

At commencement of the lease, a right to use asset is recorded on the statement of net position in an amount equal to the corresponding lease liability plus lease payments paid by KLC at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term. The right to use asset also includes any initial direct costs that are necessary to place the leased asset into service. The right to use asset is amortized over the shorter of the lease term or the useful life of the right to use asset.

Subsequent to the commencement of the lease, the lease liability and right to use asset are re-measured if certain criteria are met.

Subsequent lease payments are recognized as expenditures when they become due under the lease agreement.

##### *KLC as Lessor*

Leases receivable represent the present value of payments expected to be received during the lease term, reduced by a provision for estimated uncollectible amounts, if necessary. Lease payments are discounted to present value using the rate implicit in the lease. In subsequent years, amortization of the discount is recognized as interest income and included within rental income.

Variable payments based on the future performance of the lessee, usage of the underlying asset or criteria other than an index or rate are not included in the measurement of the leases receivable. Those variable payments are recognized as rental income in the period to which those payments relate.

At commencement of the lease, a deferred inflow of resources is recorded in an amount equal to the corresponding leases receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflow of resources is recognized as rental income in a systematic and rational manner (generally, straight-line approach) over the term of the lease.

Subsequent to the commencement of the lease, the leases receivable and the deferred inflow of resources are re-measured if certain criteria are met.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### Leases, continued

##### *KLC as Lessor, continued*

KLC, as a lessor, has entered into lease agreements involving building space with maturity dates through August 2026. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease-related inflows, recognized during the year ended June 30, 2023 was \$1,210,621.

#### Subscription-Based Information Technology Arrangements (SBITA)

SBITAs are contracts that convey the control of the right to use another party's information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

##### *Short-term SBITAs*

For SBITAs with a maximum term of 12-months or less at the commencement date of the agreement KLC recognizes as an outflow of resources as amounts become due under the agreement.

##### *SBITA Right-to-Use Assets and Liabilities*

Subscription liabilities on the consolidated statement of net position represent the present value of payments expected to be made during the during the subscription term. Subscription payments are discounted to present value using the interest rate the SBITA vendor charges KLC or KLC's incremental borrowing rate if the SBITA vendor's interest rate is not readily determinable. In subsequent years, amortization of the discount is included in interest expense in the consolidated statement of revenues, expenses and changes in net position.

Variable payments based on future performance of KLC, usage of the underlying asset or criteria other than an index or rate are not included in the measurement of the subscription liability. Those variable payments are recognized as an outflow of resources in the period in which the obligation for those payments is incurred.

At commencement of the SBITA, a right-to-use subscription asset is recorded on the consolidated statement of net position in an amount equal to the corresponding subscription liability plus payments paid to the SBITA vendor by KLC at or before the commencement of the subscription term, less any incentives received by KLC from the SBITA vendor at or before the commencement of the subscription term. The right-to-use subscription asset also includes any capitalizable implementation costs that are necessary to place the right-to-use subscription asset into service. The right-to-use subscription asset is amortized over the shorter of the subscription term or the useful life of the right-to-use subscription asset.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### Subscription-Based Information Technology Arrangements (SBITA), continued

##### *SBITA Right-to-Use Assets and Liabilities, continued*

Subsequent to the commencement of the SBITA, the subscription liability and right-to-use subscription asset are re-measured if certain criteria are met.

#### 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 and capital related deferred inflows of resources.

*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.

#### 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 \$380,564 as of June 30, 2023. Unearned revenue also includes convention, administrative fees, advertising fees and rent received in advance. Total other unearned revenue for the League as of June 30, 2023 was \$230,730.

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, 2023 was \$25,770.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### Pensions and Other Post-Employment Benefits (OPEB)

KLC participates in the County Employees Retirement System (CERS) administered by the Board of Trustees of CERS. 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. The CERS financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments and health insurance premiums (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the plan. 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.

#### Recent Accounting Pronouncements

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, requiring KLC to recognize liabilities for compensated absences for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through non-cash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through non-cash means. This statement becomes effective for the fiscal year ending June 30, 2025. KLC is evaluating the impact of this statement on the consolidated financial statements.

#### Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 14, 2023, the date that the consolidated 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, 2023 are as follows:

Deposits and investments classified as cash and cash equivalents:

Cash and cash equivalents	\$ 1,721,376
Money market mutual funds	<u>247,479</u>

Total deposits 1,968,855

Investments classified as investment securities:

U.S. government agencies and municipal obligations	3,461,830
Corporate and foreign bonds	1,292,256
Bond mutual funds	1,674,587
Equity mutual funds	1,710,566
Equity securities	<u>6,275,112</u>

Total investments 14,414,351

Total deposits and investments \$ 16,383,206

Interest and investment income (loss) is comprised of the following for the year ended June 30, 2023:

Interest and dividend income	\$ 251,603
Realized losses on sales of securities	(104,671)
Unrealized gains on securities	<u>1,185,470</u>

\$ 1,332,402

#### 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

Certain investments are held by KLCIPP, a related party. The investments held by KLCIPP are managed and advised by PNC Bank. The fair value of these investments were \$2,399,529 as of June 30, 2023.

## 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, 2023, 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, 2023:

AA	\$ 1,602,768
A	724,980
Below A	426,338
Not rated or other	<u>2,000,000</u>
	<u>\$ 4,754,086</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 U.S. government issued securities, no limit, and bonds issued by the KBC, up to an aggregate limit of \$2,000,000, as well as setting guidelines for the type and quality of investments. At June 30, 2023, there were five investments that exceeded the 5% limit; however, two were exempt they were U.S. Government issued securities and one was a series of bonds issued by the KBC up to the \$2,000,000 limit, which is also exempt. One other holding was on a KLCIA investment in a MBS fund, which holds more than 10,000 individual bonds, all of which are U.S. Government issued or U.S. Government guaranteed bonds, that are permitted in the investment policy and thus none of the underlying bonds exceed the 5%. The remaining holding was in a KLC investment that exceeded the policy guidelines by half a percent (0.5%) and management has worked with investment managers to resolve.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 3. Deposits and Investments, continued

As of June 30, 2023, 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	\$ 74,585	\$ 475,232	\$ 912,013	\$ 2,000,000
Corporate and foreign bonds	<u>5,001</u>	<u>660,182</u>	<u>627,073</u>	<u>-</u>
Total maturities	<u>\$ 79,586</u>	<u>\$ 1,135,414</u>	<u>\$ 1,539,086</u>	<u>\$ 2,000,000</u>

### 4. Capital Assets

Capital asset activity for the year ended June 30, 2023 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 674,175	\$ -	\$ -	\$ 674,175
Construction in progress	<u>8,747</u>	<u>808,733</u>	<u>(738,811)</u>	<u>78,669</u>
Total capital assets, not being depreciated	682,922	808,733	(738,811)	752,844
Capital assets, being depreciated:				
Buildings	7,771,841	297,280	-	8,069,121
Parking lot and improvements	1,249,505	-	-	1,249,505
Furniture and fixtures	2,240,667	19,597	(76,672)	2,183,592
Improvements	<u>5,779,501</u>	<u>432,558</u>	<u>(481,877)</u>	<u>5,730,182</u>
Total capital assets, being depreciated	17,041,514	749,435	(558,549)	17,232,400
Accumulated depreciation	<u>(12,552,677)</u>	<u>(661,358)</u>	<u>394,946</u>	<u>(12,819,089)</u>
Net capital assets, being depreciated	4,488,837	88,077	(163,603)	4,413,311
Leased assets, being amortized:				
Furniture and fixtures	64,767	105,128	-	169,895
Accumulated amortization	<u>(21,717)</u>	<u>(28,660)</u>	<u>-</u>	<u>(50,377)</u>
Net leased assets, being amortized	43,050	76,468	-	119,518
SBITAs*, being amortized:				
SBITAs**	104,905	14,165	-	119,070
Accumulated amortization	<u>-</u>	<u>(40,958)</u>	<u>-</u>	<u>(40,958)</u>
Net SBITAs, being amortized	<u>104,905</u>	<u>(26,793)</u>	<u>-</u>	<u>78,112</u>
Net capital assets	<u>\$ 5,319,714</u>	<u>\$ 946,485</u>	<u>\$ (902,414)</u>	<u>\$ 5,363,785</u>

\* New categories for SBITAs and the related accumulated amounts were added as a result of GASB 96 implementation

\*\* The SBITAs category beginning balance was restated as a result of GASB 96 implementation

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 5. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2023 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
Bonds payable	\$ 931,166	\$ -	\$ (352,134)	\$ 579,032	\$ 362,578
Note payable	456,739	-	(67,961)	388,778	70,583
Leases payable	43,469	105,128	(26,796)	121,801	31,329
SBITA liability*	<u>104,905</u>	<u>14,165</u>	<u>(34,247)</u>	<u>84,823</u>	<u>47,589</u>
	<u>\$ 1,536,279</u>	<u>\$ 119,293</u>	<u>\$ (481,138)</u>	<u>\$ 1,174,434</u>	<u>\$ 512,079</u>

\* The SBITA liability category beginning balance was restated as a result of GASB 96 implementation

#### Bonds 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, 2023 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.

#### Leases Payable

KLC, as a lessee, has entered into multiple lease agreements involving furniture and fixtures maturing at various dates through January 2028.

#### SBITA Liability

KLC has committed to SBITAs for cloud-based computing and collaboration products, information technology and cybersecurity services maturing at various dates through July 2025.



## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 5. Long-Term Liabilities, continued

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

Year ending June 30,	Bonds Payable	Notes Payable	Leases Payable	SBITA Liability	Interest	Total
2024	\$ 362,578	\$ 70,583	\$ 31,329	\$ 47,589	\$ 29,135	\$ 541,214
2025	216,454	73,380	26,782	35,769	13,837	366,222
2026	-	76,250	25,567	1,465	8,213	111,495
2027	-	79,232	24,066	-	7,142	110,440
2028	-	89,333	14,057	-	2,021	105,411
	<u>\$ 579,032</u>	<u>\$ 388,778</u>	<u>\$ 121,801</u>	<u>\$ 84,823</u>	<u>\$ 60,348</u>	<u>\$ 1,234,782</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, 2023, contributions totaled \$73,543.

#### County Employees Retirement System (CERS) Pension and OPEB Plans

CERS is governed by a 9-member board of trustees. Another 9-member board of trustees called the Kentucky Retirement Systems oversees the Kentucky Employees Retirement Systems (KERS) and the State Police Retirement System (SPRS). The administrative entity comprising the office of counselors and professional staff is the Kentucky Public Pensions Authority (KPPA). It is governed by a third 8-member board composed of trustees from CERS and the Kentucky Retirement Systems. CERS, KERS, and SPRS are cost-sharing, multiple employer defined benefit pension and OPEB plans. KLC has elected to participate in CERS pursuant to KRS Section 78.530. The board of trustees of the Kentucky Retirement Systems and CERS administer the Kentucky Retirement Insurance Trust 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.

## 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

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 actuarially determined, per KRS Section 78.454(33), each year. CERS issues publicly available reports that include financial statements and required supplementary information and actuarial valuations, including all actuarial assumptions and methods. 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](http://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.

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%, if the employee's participation began prior to August 1, 2004 and 2.0% 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.

## 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

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 4% 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 non-service related disability eligibility. Disability benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. Death benefits equal the employee's final full-year salary.

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:

<u>Years of Service</u>	<u>% Paid by Insurance</u>	
	<u>Fund</u>	<u>% Paid by Member</u>
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 be allocated with 5.00% to the member's account and 1.00% to the Insurance Fund. KLC's contribution rate for non-hazardous employees, for both pension benefits and health benefits funds, was 26.79%, 26.95% and 24.06% for the years ended June 30, 2023, 2022 and 2021, respectively.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 6. Retirement and OPEB Plans, continued

#### Pension Plan

*Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions* – At June 30, 2023, KLC reported a liability of \$15,209,772, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 year ended June 30, 2023, KLC recognized pension expense of \$939,548.

At June 30, 2023, 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	\$ 16,261	\$ 135,450
Net difference between projected and actual earnings on pension plan investments	389,923	-
Changes in proportion and differences between KLC's contributions and proportionate share of contributions	9,857	521,476
KLC's contributions subsequent to the measurement date of June 30, 2022	<u>1,529,623</u>	<u>-</u>
Total	<u>\$ 1,945,664</u>	<u>\$ 656,926</u>

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, 2024. 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 and deferred inflows 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 2.90 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

#### Pension Plan, continued

The net (decrease) increase in pension expense related to the amortization of these deferred outflows/inflows of resources is as follows:

Year ending June 30:	
2024	\$ (376,576)
2025	(168,570)
2026	(127,814)
2027	<u>432,075</u>
Total	\$ <u>(240,885)</u>

*Actuarial assumptions* – For financial reporting, the actuarial valuation as of June 30, 2022, was performed by Gabriel, Roeder, Smith & Company (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ended June 30, 2022, using generally accepted actuarial principles.

There have been no actuarial assumption or method changes since June 30, 2021. Additionally, there have been no changes that would materially impact the total pension liability since June 30, 2021.

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

Inflation	2.3%
Payroll growth	2.0% for CERS non-hazardous
Salary increases	3.3% to 10.3%, varies by service
Investment rate of return	6.25%

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.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 6. Retirement and OPEB Plans, continued

#### Pension Plan, continued

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:		
Equity:		
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income:		
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	(0.91%)
Inflation Protected:		
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
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 the required 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.

*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 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	\$ 19,010,328	\$ <b>15,209,772</b>	\$ 12,066,397

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

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 6. Retirement and OPEB Plans, continued

#### OPEB Plan

*OPEB liabilities, OPEB expense, deferred outflows of resources and deferred inflows of resources related to OPEB* - At June 30, 2023, KLC reported a liability of \$4,151,838, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022. 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 year ended June 30, 2023, KLC recognized OPEB expense of \$560,509.

At June 30, 2023, KLC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 417,917	\$ 952,113
Changes in assumption	656,642	541,069
Net difference between projected and actual earnings on OPEB plan investments	168,513	-
Changes in proportion and differences between KLC's contributions and proportionate share of contributions	87,993	243,164
KLC's contributions subsequent to the measurement date of June 30, 2022	371,289	-
Total	\$ 1,702,354	\$ 1,736,346

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, 2024. The deferred outflows 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 4.82 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 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:	
2024	\$ (32,983)
2025	(53,693)
2026	(310,082)
2027	<u>(8,523)</u>
Total	\$ <u>(405,281)</u>

*Actuarial assumptions* - For financial reporting the actuarial valuation as of June 30, 2022, was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2022, were based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled forward from the valuation date (June 30, 2021) to the plan's fiscal year ended June 30, 2022, using generally accepted actuarial principles.

Senate Bill 209, passed during the 2022 legislative session, increased the insurance dollar contribution for members hired on or after July 1, 2003, by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA. The total OPEB liability as of June 30, 2022, is determined using these updated benefit provisions. 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, 2021 valuation process and was updated to better reflect the plans' anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in healthcare costs. 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, 2022:

Inflation	2.3%
Payroll growth rate	2.0% for CERS non-hazardous
Salary increases	3.3% to 10.3%, varies by service
Investment rate of return	6.25%

#### Healthcare trend rates:

Pre – 65 Initial trend starting at 6.25% at January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Post – 65 Initial trend starting at 2.50% at January 1, 2021, and 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 increased from 5.20% to 5.70% for the non-hazardous fund. The projection of cash flows used to determine the discount rate of 5.70% 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 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. 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 5.70%, 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 or 1 percentage point higher than the current discount rate:

	1% Decrease (4.70%)	Current Discount Rate (5.70%)	1% Increase (6.70%)
KLC's share of the net OPEB liability	\$ 5,550,346	<b>\$ 4,151,838</b>	\$ 2,995,739

*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	\$ 3,086,800	<b>\$ 4,151,838</b>	\$ 5,430,749

**7. Administration Fees**

Revenues for the year ended June 30, 2023 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)
KLCIS	<b>\$ 6,936,537</b>	<b>\$ 37,328</b>
KLCWCT	<b>2,872,830</b>	<b>(166,344)</b>
KLCUCRT	<b>124,448</b>	<b>4,814</b>
KBC	<b>813,616</b>	-
KBDC	<b>5,600</b>	-
KLCFT	<b>50,000</b>	<b>208</b>
KLIGHT	<b>100,000</b>	-

## 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 year ended June 30, 2023, KBC issued approximately \$54.0 million 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 year ended June 30, 2023, KBDC did not issue any 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 \$579,032 as of June 30, 2023.

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 year ended June 30, 2023.

KLC manages the employee enrollment and processes applications for coverages provided by KLGHT (the Trust). KLC oversees the Trust's investments and authorizes and processes all operational expenses related to the Trust. Total administrative fees received from KLGHT during the year ended June 30, 2023 were \$100,000.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

### 8. Operating Expenses

Operating expenses for the year ended June 30, 2023 by natural classification are as follows:

Salaries	\$ 7,452,642
Retirement	1,573,600
Employee benefits	1,220,836
Payroll taxes	533,385
Professional services	505,322
Depreciation and amortization	441,167
Meetings	423,360
Legislative services	269,788
Program and development	221,803
Travel	182,768
Building management	138,387
Sponsorship support	117,420
Office supplies	106,534
Insurance	100,335
Publications	84,835
Telephones	73,874
Dues	66,403
Utilities	58,370
Software, web and technology	54,187
Other expenses	<u>121,513</u>
	<u>\$ 13,746,529</u>

Operating expenses for the year ended June 30, 2023 by functional classification are as follows:

Administrative and general	\$ 4,255,682
Member insurance services	6,536,757
Legislative services	2,376,894
Member financial services	282,015
Member meeting and training services	<u>295,181</u>
	<u>\$ 13,746,529</u>

### 9. Building Expenses

Building expenses for the year ended June 30, 2023 is as follows:

Depreciation and amortization	\$ 289,808
Building management	338,022
Utilities	129,989
Other expenses	<u>64,221</u>
	<u>\$ 822,040</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), which comprise KLC's consolidated statement of net position as of June 30, 2023, the related consolidated statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated September 14, 2023.

**Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

**Report on 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 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*.

Board of Directors  
Kentucky League of Cities, Inc. and Subsidiaries  
Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters, continued

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dean Dotson Allen Ford, PLLC*

Lexington, Kentucky  
September 14, 2023

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### Consolidating Statement of Net Position

June 30, 2023

	KLC	KLCIA	KLCPFC	Consolidating Entries	Consolidated Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 1,454,991	\$ 513,864	\$ -	\$ -	\$ 1,968,855
Investments	14,106,416	407,935	-	(100,000)	14,414,351
Accounts receivable	87,089	230,684	-	-	317,773
Current portion of leases receivable	893,045	-	-	-	893,045
Prepaid expenses and other assets	288,529	33,306	-	-	321,835
Other receivables	423,598	8,440	-	-	432,038
Due from related parties	719,175	17	-	(631,173)	88,019
Total current assets	17,972,843	1,194,246	-	(731,173)	18,435,916
Leases receivable, net of current portion	1,539,520	-	-	-	1,539,520
Capital assets, net	5,363,785	-	-	-	5,363,785
Total assets	\$ 24,876,148	\$ 1,194,246	\$ -	\$ (731,173)	\$ 25,339,221
<b>Deferred Outflows of Resources</b>					
Deferred amount related to pension plan	\$ 1,945,664	\$ -	\$ -	\$ -	\$ 1,945,664
Deferred amount related to OPEB	1,702,354	-	-	-	1,702,354
Total deferred outflows of resources	\$ 3,648,018	\$ -	\$ -	\$ -	\$ 3,648,018

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

Consolidating Statement of Net Position, continued

June 30, 2023

	<u>KLC</u>	<u>KLCIA</u>	<u>KLCPFC</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	\$ 407,364	\$ 75,093	\$ -	\$ -	\$ 482,457
Accrued liabilities	1,047,442	-	-	-	1,047,442
Unearned revenue	611,297	25,767	-	-	637,064
Due to related parties	204,828	638,358	-	(631,173)	212,013
Current maturities of note payable	70,583	-	-	-	70,583
Current maturities of bonds payable	362,578	-	-	-	362,578
Current maturities of leases payable	31,329	-	-	-	31,329
Current maturities of SBITA liability	47,589	-	-	-	47,589
Total current liabilities	<u>2,783,010</u>	<u>739,218</u>	<u>-</u>	<u>(631,173)</u>	<u>2,891,055</u>
Note payable, net of current maturities	318,195	-	-	-	318,195
Bonds payable, net of current maturities	216,454	-	-	-	216,454
Leases payable, net of current maturities	90,472	-	-	-	90,472
SBITA liability, net of current maturities	37,234	-	-	-	37,234
Net pension liability	15,209,772	-	-	-	15,209,772
Net OPEB liability	4,151,838	-	-	-	4,151,838
Total liabilities	<u>\$ 22,806,975</u>	<u>\$ 739,218</u>	<u>\$ -</u>	<u>\$ (631,173)</u>	<u>\$ 22,915,020</u>
<b>Deferred Inflows of Resources</b>					
Deferred amount related to pension plan	\$ 656,926	\$ -	\$ -	\$ -	\$ 656,926
Deferred amount related to OPEB	1,736,346	-	-	-	1,736,346
Deferred amount related to rental income	2,293,177	-	-	-	2,293,177
Total deferred inflows of resources	<u>\$ 4,686,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,686,449</u>
<b>Net Position</b>					
Invested in capital assets, net of related debt and capital related deferred inflows of resources	\$ 4,189,351	\$ -	\$ -	\$ -	\$ 4,189,351
Unrestricted and assigned by the KLC Executive Board for future city advocacy and programming in lieu of dues increase	375,815	-	-	-	375,815
Unrestricted and assigned by the KLC Executive Board for capital projects	42,500	-	-	-	42,500
Unrestricted and unassigned, available for general activities	(3,576,924)	455,028	-	(100,000)	(3,221,896)
Total net position	<u>\$ 1,030,742</u>	<u>\$ 455,028</u>	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ 1,385,770</u>

*See Report of Independent Auditors and Notes to the Required Supplementary Information*



## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### Consolidating Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2023

	KLC	KLCIA	KLCPFC	Consolidating Entries	Consolidated Total
Operating revenue:					
Administrative fee - KLCIS	\$ 5,747,218	\$ -	\$ -	\$ -	\$ 5,747,218
Administrative fee - KLCWCT	2,557,470	-	-	-	2,557,470
Administrative fee - Bond Pools	869,216	-	-	-	869,216
Administrative fee - KLCUCRT	124,448	-	-	-	124,448
Commissions	2,767,742	2,913,412	-	(2,767,742)	2,913,412
Member dues	770,464	-	-	-	770,464
Member meeting and training income	543,232	-	-	-	543,232
Publication income	27,102	-	-	-	27,102
Other	584,659	16,879	-	-	601,538
Total operating revenue	13,991,551	2,930,291	-	(2,767,742)	14,154,100
Operating expenses	13,619,745	2,894,526	-	(2,767,742)	13,746,529
Operating income	371,806	35,765	-	-	407,571
Non-operating revenues (expenses):					
Rental income	1,243,893	-	-	-	1,243,893
Interest and investment income	1,290,552	39,314	2,536	-	1,332,402
Interest expense	(63,434)	-	-	-	(63,434)
Loss on disposal of capital assets	(163,603)	-	-	-	(163,603)
Building expenses	(822,040)	-	-	-	(822,040)
Total non-operating revenues	1,485,368	39,314	2,536	-	1,527,218
Change in net position	1,857,174	75,079	2,536	-	1,934,789
Net position, beginning of year	(976,563)	379,949	151,179	(103,584)	(549,019)
Dissolution of KLCPFC	150,131	-	(153,715)	3,584	-
Net position, end of year	\$ 1,030,742	\$ 455,028	\$ -	\$ (100,000)	\$ 1,385,770

*See Report of Independent Auditors and Notes to the Required Supplementary Information*

**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)  
(Amounts in thousands)

For the Years Ended June 30 for the Last Ten Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Portion of the net pension liability	0.21 %	0.22 %	0.23 %	0.22 %	0.21 %	0.21 %	0.20 %	0.19 %	0.20 %	
Proportionate share of the net pension liability	\$ 15,210	\$ 13,900	\$ 17,394	\$ 15,750	\$ 13,037	\$ 12,163	\$ 10,030	\$ 8,292	\$ 6,466	
Covered- Employee Payroll *	\$ 5,915	\$ 5,765	\$ 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	257.14 %	241.11 %	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	52.42 %	57.33 %	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 Report of Independent Auditors and Notes to the Required Supplementary Information*

**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)  
(Amounts in thousands)

For the Years Ended June 30 for the Last Ten Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Portion of the net OPEB liability	0.21 %	0.22 %	0.23 %	0.22 %	0.21 %	0.21 %				
Proportionate share of the net OPEB liability	\$ 4,152	\$ 4,173	\$ 5,474	\$ 3,766	\$ 3,801	\$ 4,177				
Covered- Employee Payroll *	\$ 5,915	\$ 5,765	\$ 6,169	\$ 5,818	\$ 5,498	\$ 5,277				
Proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	70.19 %	72.39 %	88.73 %	64.73 %	69.13 %	79.15 %				
Plan fiduciary net position as a percentage of the total OPEB liability	60.95 %	62.91 %	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 Report of Independent Auditors and Notes to the Required Supplementary Information*

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

**Schedules of Required Supplementary Information**

Schedules of Pension Contributions

County Employees Retirement System (CERS)  
(Amounts in thousands)

For the Years Ended June 30 for the Last Ten Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,803	\$ 1,265	\$ 1,113	\$ 1,191	\$ 944	\$ 796	\$ 736	\$ 633	\$ 631	
Contributions in relation to the contractually required contribution	<u>1,803</u>	<u>1,265</u>	<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>-</u>	\$ <u>-</u>	\$ <u>53</u>	\$ <u>38</u>	\$ <u>-</u>	\$ <u>(9)</u>	\$ <u>10</u>	\$ <u>6</u>	\$ <u>43</u>	
Covered-employee payroll	\$ 6,782	\$ 5,915	\$ 5,765	\$ 6,169	\$ 5,818	\$ 5,498	\$ 5,277	\$ 4,962	\$ 4,591	
Contributions as a percentage of covered-employee payroll	26.59 %	21.39 %	18.39 %	18.69 %	16.23 %	14.64 %	13.76 %	12.64 %	12.81 %	

*See Report of Independent Auditors and Notes to the Required Supplementary Information*

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

**Schedules of Required Supplementary Information**

Schedules of OPEB Contributions

County Employees Retirement System (CERS)  
(Amounts in thousands)

For the Years Ended June 30 for the Last Ten Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 261	\$ 342	274	294	306	258				
Contributions in relation to the contractually required contribution	<u>261</u>	<u>345</u>	<u>261</u>	<u>284</u>	<u>306</u>	<u>262</u>				
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>(3)</u>	\$ <u>13</u>	\$ <u>10</u>	\$ <u>-</u>	\$ <u>(4)</u>				
Covered-employee payroll	\$ 6,782	\$ 5,915	\$ 5,765	\$ 6,169	\$ 5,818	\$ 5,498				
Contributions as a percentage of covered-employee payroll	3.85 %	5.83 %	4.53 %	4.60 %	5.26 %	4.77 %				

*See Report of Independent Auditors and Notes to the Required Supplementary Information*

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

### Notes to the Required Supplementary Information

The following summarizes key changes in assumptions and benefit terms from year to year.

*Changes in Assumptions and Benefit Terms from 2021 to 2022:* Since the prior measurement date, there have been no significant assumption changes. However, Senate Bill 209, passed during the 2022 Legislative Session, increased the insurance dollar contribution for members hired on or after July 1, 2003 and is first payable January 1, 2023.

*Changes in Assumptions and Benefit Terms from 2020 to 2021:* Since the prior measurement date, there have been no significant assumption changes. However, 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. Additionally, House Bill 271 passed during the 2020 Legislative Session and removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries.

*Changes in Assumptions and Benefit Terms from 2019 to 2020:* Since the prior measurement date, annual salary increases were updated based on the 2018 Experience Study; annual rates of retirement, disability, withdrawal, and mortality were updated based on the 2018 Experience Study; the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous members; the assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated (i.e. increased) to better reflect more current expectations relating to anticipated future increases in the medical costs for post-age 65 retirees; and the assumed impact of the Cadillac Tax was changed from a 3.6% to a 0.9% load on employer paid premiums for Non-Medicare retirees who became participants prior to July 1, 2003.

*Changes in Assumptions and Benefit Terms from 2018 to 2019:* Since the prior measurement date, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 was determined using these updated benefit provisions.

*Changes in Assumptions and Benefit Terms from 2017 to 2018:* Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described: (i) the assumed investment rate of return was decreased from 7.50% to 6.25%, (ii) the assumed rate of inflation was reduced from 3.25% to 2.30%, and (iii) payroll growth assumption was reduced from 4.00% to 2.00%.

*Changes in Assumptions and Benefit Terms from 2016 to 2017:* None

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARIES

Notes to the Required Supplementary Information, continued

*Changes in Assumptions and Benefit Terms from 2015 to 2016:* Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described: (i) the assumed investment rate of return was decreased from 7.75% to 7.50%, (ii) the assumed rate of inflation was reduced from 3.50% to 3.25%, (iii) the assumed rate of wage inflation was reduced from 1.00% to 0.75%, (iv) payroll growth assumption was reduced from 4.50% to 4.00%, (v) the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted, and (vi) the assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.