



Financial Statements

for

**KENTUCKY LEAGUE OF CITIES
UNEMPLOYMENT COMPENSATION
REIMBURSEMENT TRUST**

Years Ended June 30, 2023 and 2022
with Report of Independent Auditors

CONTENTS

Pages

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Independent Auditor's Report..... | 1 - 3 |
| Management's Discussion and Analysis (<i>Unaudited</i>)..... | 4 - 5 |
| Financial Statements: | |
| Statements of Net Position..... | 6 |
| Statements of Revenues, Expenses and Change in Net Position..... | 7 |
| Statements of Cash Flows..... | 8 |
| Notes to the Financial Statements..... | 9 - 15 |
| 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> | 16 - 17 |

Independent Auditor's Report

Board of Trustees
Kentucky League of Cities Unemployment Compensation Reimbursement Trust
Lexington, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kentucky League of Cities Unemployment Compensation Reimbursement Trust (the Trust), which comprise the statements of net position as of June 30, 2023 and 2022, the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net position of the Trust as of June 30, 2023 and 2022, and the change in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by 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 the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Trust'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 the Trust'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 the Trust'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 - 5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2024 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust'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 the Trust's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
January 9, 2024

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of the Kentucky League of Cities Unemployment Compensation Reimbursement Trust (the Trust) provides an overview of the Trust's financial activity for the fiscal year ended June 30, 2023. It should be read in conjunction with the financial statements, which begin on page 6.

Using this Annual Report

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

Statements of Net Position

Table 1 shows all of the assets and liabilities of the Trust and is presented on the accrual basis. The total net position increased \$1,114,752 for the current fiscal year, compared to the increase of \$426,985 during the prior fiscal year. The current fiscal year increase in net position is primarily due to an increase in investment income and a reduction in benefit payments. Please see additional information included under Statements of Revenues, Expenses and Change in Net Position. Participants received \$7,349 in dividend payments in the current year.

Table 1
Net Position

| | <u>2023</u> | <u>2022</u> |
|----------------------|-----------------------------|-----------------------------|
| Cash and investments | \$ 11,143,096 | \$ 9,876,858 |
| Other assets | <u>381,328</u> | <u>478,318</u> |
| Total assets | 11,524,424 | 10,355,176 |
| Claims payable | 166,398 | 120,655 |
| Other liabilities | <u>31,753</u> | <u>23,000</u> |
| Total liabilities | <u>198,151</u> | <u>143,655</u> |
| Total net position | <u>\$ 11,326,273</u> | <u>\$ 10,211,521</u> |

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

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

Statements of Revenues, Expenses and Change in Net Position

Table 2 shows all the revenues and expenses of the Trust and is also presented on the accrual basis. Operating revenue decreased \$489,212 primarily due to a reduction in contributions from members. Interest and investment income, net of investment expenses, increased \$1,070,874 from the prior fiscal year, primarily due to favorable market conditions.

Table 2
Change in Net Position

| Year ended June 30, | <u>2023</u> | <u>2022</u> |
|-------------------------------------------------------------------|----------------------------|-------------------|
| Operating revenues | 1,491,251 | 1,980,463 |
| Interest and investment income (loss), net of investment expenses | <u>360,686</u> | <u>(710,188)</u> |
| Total revenues | 1,851,937 | 1,270,275 |
| Benefit payments | 535,832 | 650,951 |
| Operating expenses | <u>194,004</u> | <u>192,339</u> |
| Total expenses | <u>729,836</u> | <u>843,290</u> |
| Change in net position, before dividends | 1,122,101 | 426,985 |
| Dividends to Participants | <u>7,349</u> | <u>-</u> |
| Change in net position | <u>\$ 1,114,752</u> | <u>\$ 426,985</u> |

Contacting the Kentucky League of Cities' (KLC) Financial Management

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

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Statements of Net Position

June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 78,029 | \$ 46,149 |
| Investment securities, at fair value | 11,065,067 | 9,830,709 |
| Receivable from Participants | 374,889 | 459,467 |
| Receivable from related entities, net | - | 18,851 |
| Prepaid expenses | <u>6,439</u> | <u>-</u> |
| Total assets | <u>\$ 11,524,424</u> | <u>\$ 10,355,176</u> |
| Liabilities | | |
| Payable to Commonwealth of Kentucky | \$ 166,398 | \$ 120,655 |
| Payable to related entities, net | 11,253 | - |
| Other liabilities | <u>20,500</u> | <u>23,000</u> |
| Total liabilities | <u>\$ 198,151</u> | <u>\$ 143,655</u> |
| Net Position | | |
| Net position - unrestricted | <u>\$ 11,326,273</u> | <u>\$ 10,211,521</u> |

See accompanying notes.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Statements of Revenues, Expenses and Change in Net Position

Years ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|-------------------------------------------------------------------|-----------------------------|-----------------------------|
| Operating revenues: | | |
| Participant deposits | \$ 1,491,251 | \$ 1,851,356 |
| Reimbursement of Participants' deficit balances | - | 1,018 |
| Miscellaneous revenue | <u>-</u> | <u>128,089</u> |
| Total operating revenues | 1,491,251 | 1,980,463 |
| Operating expenses: | | |
| Benefit payments | 535,832 | 650,951 |
| Other operating expenses | <u>194,004</u> | <u>192,339</u> |
| Total operating expenses | <u>729,836</u> | <u>843,290</u> |
| Operating income | 761,415 | 1,137,173 |
| Nonoperating revenue (loss): | | |
| Interest and investment income (loss), net of investment expenses | <u>360,686</u> | <u>(710,188)</u> |
| Change in net position | 1,122,101 | 426,985 |
| Net position, beginning of year | 10,211,521 | 9,784,536 |
| Dividends to Participants | <u>7,349</u> | <u>-</u> |
| Net position, end of year | <u>\$ 11,326,273</u> | <u>\$ 10,211,521</u> |

See accompanying notes.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Statements of Cash Flows

Years ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------------------------------------------------------------|--------------------------|---------------------|
| Cash flows from operating activities: | | |
| Premiums collected | \$ 1,575,829 | \$ 1,812,026 |
| Miscellaneous revenue | - | 128,089 |
| Benefits paid | (490,089) | (595,795) |
| Other payments | <u>(172,839)</u> | <u>(215,610)</u> |
| Net cash provided by operating activities | 912,901 | 1,128,710 |
| Cash flows from capital and related financing activities: | | |
| Trust dividends paid | (7,349) | - |
| Cash flows from investing activities: | | |
| Purchase of investments | (3,183,100) | (1,955,044) |
| Proceeds from sale of investments | 2,515,460 | 111,030 |
| Interest and dividends received | <u>(206,032)</u> | <u>94,579</u> |
| Net cash used in investing activities | <u>(873,672)</u> | <u>(1,749,435)</u> |
| Net increase (decrease) in cash and cash equivalents | 31,880 | (620,725) |
| Cash and cash equivalents, beginning of year | <u>46,149</u> | <u>666,874</u> |
| Cash and cash equivalents, end of year | <u>\$ 78,029</u> | <u>\$ 46,149</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 761,415 | \$ 1,137,173 |
| Increase in cash due to changes in: | | |
| Receivable from Participants | 84,578 | (40,348) |
| Receivable from/payable to related entities, net | 30,104 | (34,139) |
| Prepaid expenses | (6,439) | 11,868 |
| Payable to Commonwealth of Kentucky | 45,743 | 55,156 |
| Other liabilities | <u>(2,500)</u> | <u>(1,000)</u> |
| Net cash provided by operating activities | <u>\$ 912,901</u> | <u>\$ 1,128,710</u> |

See accompanying notes.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements

1. Description of Organization

The Kentucky League of Cities Unemployment Compensation Reimbursement Trust (the Trust) was organized as a nonprofit trust by the Kentucky League of Cities, Inc. (KLC), effective January 1, 1979. The Trust was established as a service to KLC members and their related agencies who elect coverage (Participants) under the Kentucky Unemployment Compensation Amendments of 1976 and Kentucky Revised Statutes (KRS) 341.277. These statutes provide that governmental entities, in lieu of making contributions to the Kentucky Unemployment Compensation Fund, can elect to reimburse the Commonwealth of Kentucky (the Commonwealth) for all benefits paid to workers for compensatable weeks of unemployment.

The Participants make quarterly deposits to the Trust based upon deposit rates determined by an actuary and approved by the Board of Trustees (the Board). Benefits paid by the Commonwealth are reimbursed by the Trust and charged to each Participant's account. The Agreement of Participation provides that each Participant is responsible for all benefits paid to its employees, and each Participant is required to make additional deposits to the Trust if its deposits plus allocated investment income are less than benefits and allocated expenses charged to its account. Thus, the Trust assumes no liability for Participant deficit balances, as it operates as a pool of self-insured Participants rather than as a group self-insurer. As of both June 30, 2023 and 2022, participation in the Trust included 303 Participants.

Following is a description of the most significant risks facing the Trust and how the Trust mitigates those risks:

Legal/Regulatory Risk

Legal/regulatory risk is the risk that changes in the legal or regulatory environment in which the Trust operates will occur and create additional losses or expenses not anticipated by the Trust in pricing its products. That is, regulatory initiatives designed to reduce Trust profits or new legal theories may create costs for the Trust beyond those currently recorded in the financial statements. The Trust is exposed to this risk by maintaining all of its business in Kentucky, thus increasing its exposure to a single jurisdiction. The risk is reduced by practices that identify and minimize the adverse impact of this risk.

Credit Risk

Credit risk is the risk that issuers of securities owned by an insurer will default or that other parties that owe the insurer money will not pay. The Trust minimizes this risk by adhering to a conservative investment strategy, by maintaining credit and collection policies, and by providing an allowance for any amounts deemed uncollectible.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

1. Description of Organization, continued

Interest Rate Risk

Interest rate risk is the risk that interest rates will change and cause a decrease in the value of the Trust's investments. The Trust mitigates this risk by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Trust would have to sell assets prior to maturity and recognize a gain or loss.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of money market fund investments. For purposes of the statement of cash flows, the Trust considers all short-term investments with original maturities of three months or less to be cash equivalents.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Investment Securities

Investment securities consist of mutual funds and are held by bank administered trust funds. Changes in the fair value of investment securities are reported as revenue or expenses, as applicable. The specific identification method is used to determine the cost of securities sold. Realized and unrealized gains and losses are included in interest and investment income (loss), under nonoperating revenue (loss).

Payable to Commonwealth of Kentucky

The liability for unemployment benefits payable to the Commonwealth represents quarterly benefits paid by the Commonwealth during the year that were reimbursed by the Trust subsequent to year end. The Trust does not recognize any liability for future benefits that may become payable relating to unemployment prior to year end, since each Participant is ultimately liable for benefits paid to its employees.

Participant Accounts

Investment income (loss), net of investment expenses, is allocated quarterly to Participants based upon their pro rata share of the total net assets at the beginning of that quarter. Operating expenses are allocated at the end of the year based upon the percentage of each Participant's number of employees to the total number of employees for all Participants.

Federal Income Taxes

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

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through January 9, 2024, the date that the financial statements were available to be issued.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

3. Deposits and Investments

The composition of the Trust's investment portfolio must meet certain criteria as set forth in the Kentucky Revised Statues. Investments held by the Trust as of June 30, 2023 and 2022 are as follows:

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 78,029 | \$ 46,149 |
| Mutual funds: | | |
| Dividend focus equity pool | 1,307,735 | 1,127,581 |
| Government bond fund | 3,889,850 | 5,633,251 |
| Corporate bond fund | 1,994,207 | 1,871,099 |
| Equity S&P 500 index fund | 1,484,163 | 1,198,778 |
| Enhanced income fund | <u>2,389,112</u> | <u>-</u> |
| Total investment securities | <u>11,065,067</u> | <u>9,830,709</u> |
| Total cash, cash equivalents, and investment securities | <u>\$11,143,096</u> | <u>\$ 9,876,858</u> |

Interest and investment income (loss), net of investment expenses, is comprised of the following for the years ended June 30:

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------------|-------------------|---------------------|
| Interest and dividend income | \$ 240,647 | \$ 172,266 |
| Realized losses on sales of securities | (411,193) | (44,949) |
| Unrealized gains (losses) on securities | 566,718 | (804,767) |
| Investment expenses | <u>(35,486)</u> | <u>(32,738)</u> |
| | <u>\$ 360,686</u> | <u>\$ (710,188)</u> |

Custodial Credit Risk - Deposits

Cash equivalents include investments in a money market fund that are not federally insured.

Fair Value

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that GAAP requires or permits in the statement of net position at the end of each reporting period. 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.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

3. Deposits and Investments, continued

Fair Value, continued

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

Mutual funds: Valued at the net asset value of shares held by the Trust at period end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Trust believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

All of the Trust's investments are actively traded and categorized as Level 1 investments in the fair value hierarchy.

4. Receivable from Participants

Amounts receivable from Participants consist of the following as of June 30:

| | <u>2023</u> | <u>2022</u> |
|-------------------------------------------------------------------------|-------------------|-------------------|
| Deposits for the three-month period ended June 30 | \$ 374,889 | \$ 458,449 |
| Deficit balance reimbursements for the three-month period ended June 30 | <u>-</u> | <u>1,018</u> |
| Total receivable from Participants | <u>\$ 374,889</u> | <u>\$ 459,467</u> |

The Agreement of Participation authorizes the Board to require additional deposits from individual Participants should their account reflect a deficit balance due to unfavorable experience or should the Trust become financially incapable of meeting its payment obligations. Deficit balances are billed to the Participants quarterly, with reimbursements due within 30 days of notification.

5. Participant Deposits

Participants deposit to the Trust a percentage of the first \$11,100 for the years ended June 30, 2023 and 2022, in annual wages paid to each of their covered employees. For the years ended June 30, 2023 and 2022, the deposit percentage for each Participant ranged from 0% to 3% and 0% to 8%, respectively. The deposit percentage is based upon each Participant's past experience. To facilitate Participants' quarterly reporting to the Trust, the current Board-approved formula adjusts the annual deposit rate to allow quarterly calculations on gross wages.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

6. Service Bureau

The Trust has contracted with Equifax, Inc. for unemployment compensation claims management services. Notification of payments due are submitted by the Commonwealth to the Trust. The Trust then notifies the Participant of the payment due. If a Participant disagrees with a notice of payments due, the Participant may utilize Equifax, Inc. to review the claims for validity and initiate a protest if applicable. Alternatively, the Participant may protest directly to the Commonwealth and not utilize Equifax's claims management services. The benefit claims are charged to the respective Participant's account. The fee for this service is subject to change each January 1 and July 1. This fee is charged to the Participants' accounts in equal quarterly installments. Service bureau fees were \$49,631 and \$51,852 for years ended June 30, 2023 and 2022, respectively.

7. Related Party Transactions

The following entities are the Trust's related entities:

- Kentucky Bond Corporation (KBC)
- Kentucky Bond Development Corporation (KBDC)
- Kentucky League of Cities (KLC)
- Kentucky League of Cities Funding Trust (KLCFT)
- Kentucky League of Cities Insurance Agency (KLCIA)
- Kentucky League of Cities Investment Pool Plus (KLCIPP)
- Kentucky League of Cities Premium Finance Company (KLCPPFC)
- Kentucky League of Cities Insurance Services (KLCIS)
- Kentucky League of Cities Workers Compensation Trust (KLCWCT)
- Kentucky Local Government Health Trust (KLGHT)

During both the years ended June 30, 2023 and 2022, KLC charged each Trust Participant an administrative fee of \$7.00 per average full-time equivalent employee. The annual fee is charged to the Participants' accounts in equal quarterly installments. The expense incurred by the Trust for this fee was \$124,448 and \$120,526 for the years ended June 30, 2023 and 2022, respectively.

During the years ended June 30, 2023 and 2022, the Trust invested \$875,000 and \$1,750,000, respectively, in KLCIPP. The investments held by KLCIPP are managed and advised by PNC Bank. The fair value of these investments were \$11,065,067 and \$9,830,709 as of June 30, 2023 and 2022, respectively.

KENTUCKY LEAGUE OF CITIES UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST

Notes to the Financial Statements, continued

7. Related Party Transactions, continued

The Trust reports amounts as being due from or due to related parties. Related party receivables and payables included within the Trust's statements of net position are as follows as of June 30, 2023 and 2022.

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------------------------|--------------------|------------------|
| KLC accounts receivable (payable) | \$ (4,797) | \$ 17,260 |
| KLCIS accounts payable | (6,439) | (12) |
| KLCWCT accounts receivable | - | 1,603 |
| KLCIA accounts payable | <u>(17)</u> | <u>-</u> |
| Total (payable) receivable to related entities, net | <u>\$ (11,253)</u> | <u>\$ 18,851</u> |

8. Trust Dividends

The Board authorized Trust dividends to Participants in the amount of \$7,349 for the year ended June 30, 2023. There were no Trust dividends authorized to Participants for the year ended June 30, 2022.

9. Other Operating Expenses

Other operating expenses consisted of the following for the years ended June 30:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------|-------------------|-------------------|
| KLC administrative fees | \$ 124,448 | \$ 120,526 |
| Service bureau fees | 49,631 | 51,852 |
| Professional fees | 10,000 | 11,000 |
| Other expenses | <u>9,925</u> | <u>8,961</u> |
| Total other operating expenses | <u>\$ 194,004</u> | <u>\$ 192,339</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***

Independent Auditor's Report

Board of Trustees
Kentucky League of Cities Unemployment Compensation Reimbursement Trust
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 (*Government Auditing Standards*), the financial statements of Kentucky League of Cities Unemployment Compensation Reimbursement Trust (the Trust), which comprise the statement of net position as of June 30, 2023, the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 9, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust'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 the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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
January 9, 2024