



Consolidated Financial Statements

for

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

Year Ended June 30, 2024  
with Independent Auditor's Report

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## Independent Auditor's Report

Board of Directors  
Kentucky League of Cities, Inc. and Subsidiary  
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 Subsidiary (collectively, KLC) which comprise the consolidated statement of net position as of June 30, 2024, 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, 2024, 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.

***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.

**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 38 - 43 be presented to supplement the 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 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 basic financial statements, and other knowledge we obtained during our audit 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.

**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 35 - 37 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 16, 2024 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 16, 2024

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

### Management's Discussion and Analysis (*Unaudited*)

Our discussion and analysis of the Kentucky League of Cities, Inc. and Subsidiary (KLC or the Organization) provides an overview of the Organization's financial activity for the fiscal year ended June 30, 2024. 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 financial statements begin on page 7 and provide information about the Organization as a whole.

#### Contacting KLC's Financial Management

This financial report is designed to provide a general overview of KLC's 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, 2023, KLC adopted the provisions of Governmental Accounting Standards Board (GASB) 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 was to become effective for the fiscal year ending June 30, 2025, however, KLC adopted it in the current fiscal year.

The adoption of this new standard resulted in an increase of \$474,972 in the accrued compensated absences and a corresponding increase in the operating expense for the year ended June 30, 2024. There was no adjustment to the opening balance of net position as a result of the implementation of GASB Statement No. 101.

#### 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 SUBSIDIARY**

**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 \$2,799,734 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 capital and other assets is attributed to a rise in lease receivables, in accordance with GASB Statement No. 87, driven by rent escalations and the renewal of long-term leases with tenants. Total liabilities decreased primarily due to the other post-employment benefits (OPEB) adjustment under GASB Statement No. 75. OPEB refers to benefits, aside from pensions, that state or local government employees receive as part of their retirement package (see Note 6 for further details). The increase in deferred inflows of resources is largely due to pension accounting under GASB Statement No. 68 (see Note 6 for further details).

**Table 1  
Net Position**

	<u>2024</u>	<u>2023</u>
Current assets	\$ <b>19,440,922</b>	\$ 18,435,916
Capital and other assets	<u>11,703,000</u>	<u>6,903,305</u>
Total assets	<b>31,143,922</b>	25,339,221
Deferred outflows of resources	<u>4,484,306</u>	<u>3,648,018</u>
Combined assets and deferred outflows of resources	<b>35,628,228</b>	28,987,239
Current liabilities	<b>2,138,993</b>	2,891,055
Long-term liabilities	<b>1,466,118</b>	662,355
Net pension liability	<b>14,597,492</b>	15,209,772
Net post-employment benefits other than pension liability	<u>-</u>	<u>4,151,838</u>
Total liabilities	<b>18,202,603</b>	22,915,020
Deferred inflows of resources	<u>13,240,121</u>	<u>4,686,449</u>
Combined liabilities and deferred inflows of resources	<u>31,442,724</u>	<u>27,601,469</u>
Total net position	\$ <u><b>4,185,504</b></u>	\$ <u>1,385,770</u>

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

**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 \$504,928 mainly from administrative fees and other revenue. Total operating expenses increased \$527,861 from the prior year primarily due to the increase in legislative services and member meeting and training services. The change in non-operating revenues is primarily driven by the rise in interest and investment income. As part of KLC's investment strategy, a request for proposal process was conducted, resulting in the selection and hiring of New England Asset Management to manage the fixed income investments for both KLC and KLC Insurance Agency.

**Table 2**

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

	<u>2024</u>	<u>2023</u>
Operating revenue:		
Administrative fees	\$ 9,438,052	\$ 9,298,352
Commissions	2,970,547	2,913,412
Member dues	776,328	770,464
Member meeting and training income	546,119	543,232
Publication income	11,841	27,102
Other	<u>916,141</u>	<u>601,538</u>
Total operating revenue	<b>14,659,028</b>	14,154,100
Operating expenses:		
Administrative and general	4,374,742	4,255,682
Member insurance services	6,599,947	6,536,757
Legislative services	2,555,626	2,376,894
Member financial services	297,288	282,015
Member meeting and training services	<u>446,787</u>	<u>295,181</u>
Total operating expenses	<b>14,274,390</b>	13,746,529
Non-operating revenues, net	<u>2,415,096</u>	<u>1,527,218</u>
Change in net position	<b>\$ <u>2,799,734</u></b>	<b>\$ <u>1,934,789</u></b>



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

Consolidated Statement of Net Position

June 30, 2024

**Assets**

Current assets:

Cash and cash equivalents	\$ 2,075,371
Investments	15,706,565
Accounts receivable, net	270,060
Current portion of leases receivable	693,754
Prepaid expenses and other assets	180,355
Other receivables	422,434
Due from related parties	<u>92,383</u>

Total current assets 19,440,922

Leases receivable, net of current portion	5,927,438
Capital assets, net	5,461,474
Net OPEB asset	<u>314,088</u>

Total assets \$ 31,143,922

**Deferred Outflows of Resources**

Deferred amount related to pension plan	\$ 3,231,900
Deferred amount related to OPEB	<u>1,252,406</u>

Total deferred outflows of resources \$ 4,484,306

**Liabilities**

Current liabilities:

Accounts payable	\$ 311,412
Accrued liabilities	444,049
Unearned revenue	707,251
Due to related parties	323,568
Current maturities of note payable	73,380
Bonds payable	216,454
Current maturities of leases payable	26,782
Current maturities of SBITA liability	<u>36,097</u>

Total current liabilities 2,138,993

Accrued compensated absences	1,155,912
Note payable, net of current maturities	244,815
Leases payable, net of current maturities	63,690
SBITA liability, net of current maturities	1,701
Net pension liability	<u>14,597,492</u>

Total liabilities \$ 18,202,603

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

Consolidated Statement of Net Position, continued

June 30, 2024

**Deferred Inflows of Resources**

Deferred amount related to pension plan	\$ 1,742,908
Deferred amount related to OPEB	5,133,610
Deferred amount related to rental income	<u>6,363,603</u>
Total deferred inflows of resources	\$ <u>13,240,121</u>

**Net Position**

Invested in capital assets, net of related debt	\$ 4,798,555
Unrestricted and assigned by the KLC Executive Board for future city advocacy and programming in lieu of dues increase	314,480
Unrestricted and assigned by the KLC Executive Board for capital projects	113,000
Unrestricted and unassigned, available for general activities	<u>(1,040,531)</u>
Total net position	\$ <u>4,185,504</u>

*See accompanying notes.*

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

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

Year ended June 30, 2024

Operating revenue:	
Administrative fee - KLCIS	\$ 5,682,910
Administrative fee - KLCWCT	2,825,991
Administrative fee - Bond Pools	801,292
Administrative fee - KLCUCRT	127,859
Commissions	2,970,547
Member dues	776,328
Member meeting and training income	546,119
Publication income	11,841
Other	<u>916,141</u>
Total operating revenue	14,659,028
Operating expenses	<u>14,274,390</u>
Operating income	384,638
Non-operating revenues (expenses):	
Rental income	1,293,601
Interest and investment income	1,830,544
Interest expense	(50,079)
Building expenses	<u>(658,970)</u>
Total non-operating revenues	<u>2,415,096</u>
Change in net position	2,799,734
Net position, beginning of year	<u>1,385,770</u>
Net position, end of year	<u>\$ 4,185,504</u>

*See accompanying notes.*

# KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

## Consolidated Statement of Cash Flows

Year ended June 30, 2024

<b>Cash flows from operating activities:</b>	
Cash received from members and affiliates	\$ 14,786,005
Cash paid to suppliers and employees	<u>(14,787,431)</u>
Net cash used in operating activities	(1,426)
<b>Cash flows from non-capital financing activities:</b>	
Advances to related parties, net	107,191
<b>Cash flows from capital and related financing activities:</b>	
Capital expenditures	(700,233)
Principal payments on bonds payable	(362,578)
Principal payments on note payable	(70,583)
Principal payments on leases payable	(31,329)
Principal payments on SBITA liability	(47,025)
Interest paid	<u>(50,079)</u>
Net cash used in capital and related financing activities	(1,261,827)
<b>Cash flows from investing activities:</b>	
Proceeds from sale and maturity of investments	19,011,539
Interest and income on investments	3,900,762
Purchase of investments	(22,373,971)
Proceeds from rental activities, net	<u>724,248</u>
Net cash provided by investing activities	<u>1,262,578</u>
Net increase in cash and cash equivalents	106,516
Cash and cash equivalents, beginning of year	<u>1,968,855</u>
Cash and cash equivalents, end of year	\$ <u>2,075,371</u>

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

### Consolidated Statement of Cash Flows, continued

Year ended June 30, 2024

#### Reconciliation of operating income to net cash used in operating activities:

Operating income	\$ 384,638
Adjustments:	
Depreciation and amortization	394,726
Pension liability, net of deferred inflows and outflows of resources	(812,534)
OPEB liability, net of deferred inflows and outflows of resources	(304,626)
Allowance for bad debt	525
Increase (decrease) in cash due to changes in:	
Accounts receivable	47,188
Prepaid expenses and other assets	(172,608)
Other receivables	9,604
Accounts payable	(171,045)
Accrued liabilities	77,547
Compensated absences	474,972
Unearned revenue	<u>70,187</u>
Net cash used in operating activities	<u>\$ (1,426)</u>

See accompanying notes.

# KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

### 1. Nature of Organization and Operations

The Kentucky League of Cities, Inc. (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.

The consolidated financial statements include the accounts of the League and KLCIA (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.

#### Basis of Presentation

KLC presents its consolidated financial statements in conformity with 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, 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.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

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

#### Basis of Presentation, continued

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, 2023, KLC adopted the provisions of GASB 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 was to become effective for the fiscal year ending June 30, 2025, however, KLC adopted it in the current fiscal year.

The adoption of this new standard resulted in an increase of \$474,972 in the accrued compensated absences and a corresponding increase in the operating expense for the year ended June 30, 2024. There was no adjustment to the opening balance of net position as a result of the implementation of GASB Statement No. 101.

#### Cash and Cash Equivalents

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

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

#### Investments

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

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

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

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

#### Capital Assets

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

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	39 years
Parking lot and improvements	15 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).

#### Accrued Compensated Absences

Accrued compensated absences include accumulated unpaid leave benefits. KLC employees are granted leave benefits in varying amounts in accordance with administrative policy. All accumulated leave benefits are accrued when incurred.

KLC awards vacation leave based on years of employment, ranging from 90 to 150 hours each year and allows employees to carryover a maximum of 150 hours of accrued and unused vacation leave time to the next calendar year. Upon termination of employment, an employee shall be paid for any accumulated but unused vacation leave time at their regular hourly rate at the time of separation.

KLC awards 90 hours of sick leave time at the beginning of each calendar year and allows employees to carryover a maximum of 675 hours of unused sick leave time to the next calendar year. Upon termination of employment, an employee shall not be compensated for accumulated sick leave time unless one of the following exceptions applies: 1) employees who retire from KLC and began participation in one of the retirement plans administered by the Kentucky Public Pension Authority prior to January 1, 2014 are eligible to participate in the County Employees Standard Unused Sick Leave Program and have their accumulated sick leave time counted as service credit; or 2) employees who retire from KLC and did not begin participation in one of the retirement plans administered by the Kentucky Public Pension Authority prior to January 1, 2014 shall receive compensation equal to 25% of the accumulated vested sick time up to a maximum of 675 hours at their regular hourly rate at the time of retirement.

KLC also offers employees the opportunity to participate in a family and medical leave bank. Employees participate in the bank by donating sick hours to be used by any employees participating in the bank for time off that exceeds four weeks and would qualify under the federal definition of the Family and Medical Leave Act (FMLA). Employees participating in the bank may withdraw up to three weeks of paid leave for an FMLA qualifying event.



## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

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

#### Accrued Compensated Absences, continued

A summary of KLC's accrued compensated absences activity is as follows:

	<u>June 30, 2023</u>	<u>Net increases</u>	<u>June 30, 2024</u>
Accrued compensated absences	\$ 680,940	\$ 474,972	\$ 1,155,912

#### 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 outflow of resources 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.

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 outflow of resources 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 outflow of resources when they become due under the lease agreement.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

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

#### Leases, continued

##### *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.

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, 2024 was \$1,258,690.

#### 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 an outflow of resources as amounts become due under the agreement.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

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*

SBITA liabilities on the consolidated statement of net position represent the present value of payments expected to be made 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.

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:

*Invested in capital assets, net of related debt* - 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.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

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

#### 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 includes 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 \$381,126 as of June 30, 2024. 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, 2024 was \$293,686.

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, 2024 was \$32,439.

#### 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.

Cost-sharing governmental employers, such as KLC, are required to report a net pension and OPEB liability or asset, 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 or asset, 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.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

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

#### Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 16, 2024, the date that the consolidated financial statements were available to be issued.

### 3. Deposits and Investments

Deposits and investments held by KLC as of June 30, 2024 are as follows:

Deposits and investments classified as cash and cash equivalents:

Cash and cash equivalents	\$ 1,297,582
Money market mutual funds	<u>777,789</u>

Total deposits 2,075,371

Investments classified as investment securities:

U.S. government agencies and municipal obligations	3,777,674
Corporate and foreign bonds	1,264,662
Mortgage obligations	483,156
Bond mutual funds	828,839
Equity mutual funds	<u>9,352,234</u>

Total investments 15,706,565

Total deposits and investments \$ 17,781,936

Interest and investment income is comprised of the following for the year ended June 30, 2024:

Interest and dividend income	\$ 324,777
Realized gains on sales of securities	3,599,530
Unrealized losses on securities	<u>(2,093,763)</u>

\$ 1,830,544

#### 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 quoted 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.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

### 3. Deposits and Investments, continued

#### 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 \$9,352,711 as of June 30, 2024.

#### 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, 2024, KLC was invested in several U.S. government agency bonds, state and local municipal bonds, mortgage obligations, and corporate and foreign bonds which have the following ratings as of June 30, 2024:

AAA	\$ 1,831,398
AA	648,329
A	2,719,093
Below A	<u>326,672</u>
	<u>\$ 5,525,492</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, which have no limit, and bonds issued by the KBC, with an aggregate limit of \$2,000,000, as well as setting guidelines for the type and quality of investments.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

### 3. Deposits and Investments, continued

As of June 30, 2024, 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	\$ 269,571	\$ 496,622	\$ 785,659	\$ 2,225,822
Corporate and foreign bonds	163,740	697,520	318,910	84,492
Mortgage obligations	-	-	-	483,156
Total maturities	<u>\$ 433,311</u>	<u>\$ 1,194,142</u>	<u>\$ 1,104,569</u>	<u>\$ 2,793,470</u>

### 4. Capital Assets

Capital asset activity for the year ended June 30, 2024 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 674,175	\$ -	\$ -	\$ 674,175
Construction in progress	78,669	665,459	(722,405)	21,723
Total capital assets, not being depreciated	752,844	665,459	(722,405)	695,898
Capital assets, being depreciated:				
Buildings	8,069,121	722,405	-	8,791,526
Parking lot and improvements	1,249,505	-	-	1,249,505
Furniture and fixtures	2,183,592	32,558	(25,286)	2,190,864
Improvements	5,730,182	-	(358)	5,729,824
Total capital assets, being depreciated	17,232,400	754,963	(25,644)	17,961,719
Accumulated depreciation	(12,819,089)	(525,214)	25,644	(13,318,659)
Net capital assets, being depreciated	4,413,311	229,749	-	4,643,060
Leased assets, being amortized:				
Furniture and fixtures	169,895	-	-	169,895
Accumulated amortization	(50,377)	(32,197)	-	(82,574)
Net leased assets, being amortized	119,518	(32,197)	-	87,321
SBITAs, being amortized:				
SBITAs	119,070	2,216	-	121,286
Accumulated amortization	(40,958)	(45,133)	-	(86,091)
Net SBITAs, being amortized	78,112	(42,917)	-	35,195
Net capital assets	<u>\$ 5,363,785</u>	<u>\$ 820,094</u>	<u>\$ (722,405)</u>	<u>\$ 5,461,474</u>

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

### 4. Capital Assets, continued

Depreciation and amortization expense of \$394,726 and \$207,818 is included in operating expenses and non-operating business expenses, respectively, on the consolidated statement of revenues, expenses and changes in net position.

### 5. Long-Term Liabilities

Long-term liability activity, excluding accrued compensated absences for the year ended June 30, 2024 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
Bonds payable	\$ 579,032	\$ -	\$ (362,578)	\$ 216,454	\$ 216,454
Note payable	388,778	-	(70,583)	318,195	73,380
Leases payable	121,801	-	(31,329)	90,472	26,782
SBITA liability	<u>84,823</u>	<u>-</u>	<u>(47,025)</u>	<u>37,798</u>	<u>36,097</u>
	<u>\$ 1,174,434</u>	<u>\$ -</u>	<u>\$ (511,515)</u>	<u>\$ 662,919</u>	<u>\$ 352,713</u>

#### 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 financed purchase agreements. Repayment on these financed purchase agreements began January 1, 2011. The interest rates on the financed purchase agreements as of June 30, 2024 were 2.00%. The financed purchase agreements are included in the bond pools that are administered by KLC (see Note 7). The financed purchase agreements bear interest at variable rates based on the Securities Industry and Financial Markets 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 multiple 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 SUBSIDIARY

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
2025	\$ 216,454	\$ 73,380	\$ 26,782	\$ 36,097	\$ 15,842	\$ 368,555
2026	-	76,250	25,567	1,701	9,596	113,114
2027	-	79,232	24,006	-	5,864	109,102
2028	-	89,333	14,117	-	2,151	105,601
	<u>\$ 216,454</u>	<u>\$ 318,195</u>	<u>\$ 90,472</u>	<u>\$ 37,798</u>	<u>\$ 33,453</u>	<u>\$ 696,372</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 year ended June 30, 2024, contributions totaled \$71,864.

#### 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 SUBSIDIARY

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 SUBSIDIARY

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 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 23.34%, 26.79% and 26.95% for the years ended June 30, 2024, 2023 and 2022, respectively.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

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, 2024, KLC reported a liability of \$14,597,492, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, 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, 2024, KLC recognized pension expense of \$902,769.

At June 30, 2024, KLC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 755,684	\$ 39,666
Changes in assumption	-	1,337,870
Net difference between projected and actual earnings on pension plan investments	-	199,117
Changes in proportion and differences between KLC's contributions and proportionate share of contributions	760,913	166,255
KLC's contributions subsequent to the measurement date of June 30, 2023	1,715,303	-
Total	\$ 3,231,900	\$ 1,742,908

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, 2025. The deferred inflows 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 2.85 years for non-hazardous employees.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

### 6. Retirement and OPEB Plans, continued

#### Pension Plan, continued

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

Year ending June 30:	
2025	\$ (213,467)
2026	(197,402)
2027	325,875
2028	<u>(141,317)</u>
Total	\$ <u>(226,311)</u>

*Actuarial assumptions* – For financial reporting, the actuarial valuation as of June 30, 2023, was performed by Gabriel, Roeder, Smith & Company (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2023 were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ended June 30, 2023, using generally accepted actuarial principles.

The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022", and include a change in investment return assumption from 6.25% to 6.50%. House Bill 506 passed during the 2023 legislative session and reinstated the Partial Lump Sum Option form of payment for members who retire on and after January 1, 2024, with the lump-sum options expanded to include 48 or 60 times the member's monthly retirement allowance. House Bill 506 also adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month under all circumstances. The total OPEB liability as of June 30, 2023, is determined using these updated benefit provisions. There were no other material plan provision changes.

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

Inflation	2.5%
Payroll growth	2.0%
Salary increases	3.3% to 10.3%, varies by service
Investment rate of return	6.50%

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 2013-2022, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

### 6. Retirement and OPEB Plans, continued

#### Pension Plan, continued

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long Term Expected Real Rate of Return
Asset Class:		
Equity:		
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income:		
Core Bonds	10.00%	2.45%
Specialty Credit/High Yield	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected:		
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Total	100.00%	

*Discount rate* – The discount rate used to measure the total pension liability was 6.50%. 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.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

### 6. Retirement and OPEB Plans, continued

#### Pension Plan, continued

*Sensitivity of KLC's proportionate share of the net pension liability to changes in the discount rate* – The following presents KLC's proportionate share of the net pension liability calculated using the discount rate of 6.50%, 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 (5.50%) or 1 percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KLC's share of the net pension liability	\$ 18,430,216	\$ <b>14,597,492</b>	\$ 11,412,355

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

#### OPEB Plan

*OPEB assets, OPEB expense, deferred outflows of resources and deferred inflows of resources related to OPEB* - At June 30, 2024, KLC reported an asset of \$314,088, for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2024, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2023. KLC's proportion of the net OPEB asset 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, 2024, KLC recognized an offset to OPEB expense of \$618,714.

At June 30, 2024, 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	\$ 218,967	\$ 4,459,735
Changes in assumption	618,103	430,756
Net difference between projected and actual earnings on OPEB plan investments	-	72,894
Changes in proportion and differences between KLC's contributions and proportionate share of contributions	312,747	170,225
KLC's contributions subsequent to the measurement date of June 30, 2023	<b>102,589</b>	-
Total	<b>\$ 1,252,406</b>	<b>\$ 5,133,610</b>

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

### 6. Retirement and OPEB Plans, continued

#### OPEB Plan, continued

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 asset in the year ending June 30, 2025. The deferred inflows of resources related to the net difference between projected and actual earnings on OPEB plan investments are amortized and recognized in OPEB expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized and recognized in OPEB expense over the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan which is determined to be 4.85 years for non-hazardous employees.

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:	
2025	\$ (985,759)
2026	(1,260,906)
2027	(937,604)
2028	<u>(799,524)</u>
Total	\$ <u>(3,983,793)</u>

*Actuarial assumptions* - For financial reporting the actuarial valuation as of June 30, 2023, was performed by GRS. The total OPEB asset, net OPEB asset, and sensitivity information as of June 30, 2023, were based on an actuarial valuation date of June 30, 2022. The total OPEB asset was rolled forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles.

The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022". House Bill 506 passed during the 2023 legislative session and reinstated the Partial Lump Sum Option form of payment for members who retire on and after January 1, 2024, and adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month under all circumstances. The total OPEB liability as of June 30, 2023, 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, 2022 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 SUBSIDIARY

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, 2023:

Inflation	2.5%
Payroll growth rate	2.0%
Salary increases	3.3% to 10.3%, varies by service
Investment rate of return	6.50%

#### Healthcare trend rates:

Pre – 65 Initial trend starting at 6.80% at January 1, 2025 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Post – 65 Initial trend starting at 8.50% January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 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 asset increased from 5.70% to 5.93% for the non-hazardous fund. The projection of cash flows used to determine the discount rate of 5.93% 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 6.50%, and a municipal bond rate of 3.86%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2023. 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 SUBSIDIARY

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 asset to changes in the discount rate* - The following presents KLC's proportionate share of the net OPEB asset calculated using the discount rate of 5.93%, as well as what KLC's proportionate share of the net OPEB asset 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	Current Discount Rate	1% Increase
KLC's share of the net OPEB liability (asset)	\$ 589,423	\$ <b>(314,088)</b>	\$ (1,070,668)

*Sensitivity of KLC's proportionate share of the net OPEB asset to changes in the healthcare cost trend rates* - The following presents KLC's proportionate share of the net OPEB asset, as well as what KLC's proportionate share of the net OPEB asset 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 (asset)	\$ (1,006,707)	\$ <b>(314,088)</b>	\$ 536,729

### 7. Administration Fees

Revenues for the year ended June 30, 2024 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>6,814,240</b>	\$ <b>(201,420)</b>
KLCWCT	<b>3,213,480</b>	<b>(34,969)</b>
KLCUCRT	<b>127,859</b>	<b>4,988</b>
KBC	<b>759,318</b>	-
KBDC	<b>1,673</b>	-
KLCFT	<b>40,293</b>	<b>216</b>
KLCIPP	<b>106,880</b>	-
KLGHT	<b>100,000</b>	-

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

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, 2024, KBC issued approximately \$27.9 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, 2024, 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 \$216,454 as of June 30, 2024.

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. Total administrative fees received from KLCIPP during the year ended June 30, 2024 were \$106,880.

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, 2024 were \$100,000.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

Notes to the Consolidated Financial Statements, continued

### 8. Operating Expenses

Operating expenses for the year ended June 30, 2024 by natural classification are as follows:

Salaries	\$ 8,677,094
Employee benefits	1,290,072
Payroll taxes	600,772
Meetings	588,346
Professional services	529,559
Legislative services	460,229
Depreciation and amortization	394,726
Retirement	355,919
Program and development	254,326
Travel	184,105
Sponsorship support	145,635
Office supplies	131,063
Other expenses	130,672
Building management	118,756
Insurance	106,560
Publications	72,762
Dues	64,050
Software, web and technology	62,413
Utilities	57,280
Telephones	<u>50,051</u>
	<u>\$ 14,274,390</u>

Operating expenses for the year ended June 30, 2024 by functional classification are as follows:

Administrative and general	\$ 4,374,742
Member insurance services	6,599,947
Legislative services	2,555,626
Member financial services	297,288
Member meeting and training services	<u>446,787</u>
	<u>\$ 14,274,390</u>

### 9. Building Expenses

Building expenses for the year ended June 30, 2024 are as follows:

Depreciation and amortization	\$ 207,818
Building management	282,559
Utilities	126,290
Other expenses	<u>42,303</u>
	<u>\$ 658,970</u>

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

Consolidating Statement of Net Position

June 30, 2024

<b>Assets</b>	KLC	KLCIA	Consolidating Entries	Consolidated Total
Current assets:				
Cash and cash equivalents	\$ 1,849,306	\$ 226,065	\$ -	\$ 2,075,371
Investments	15,336,278	470,287	(100,000)	15,706,565
Accounts receivable, net	131,696	138,364	-	270,060
Current portion of leases receivable	693,754	-	-	693,754
Prepaid expenses and other assets	150,586	29,769	-	180,355
Other receivables	420,448	1,986	-	422,434
Due from related parties	<u>362,587</u>	<u>84,561</u>	<u>(354,765)</u>	<u>92,383</u>
Total current assets	<b>18,944,655</b>	<b>951,032</b>	<b>(454,765)</b>	<b>19,440,922</b>
Leases receivable, net of current portion	5,927,438	-	-	5,927,438
Capital assets, net	5,461,474	-	-	5,461,474
Net OPEB asset	<u>314,088</u>	<u>-</u>	<u>-</u>	<u>314,088</u>
Total assets	<b><u>\$ 30,647,655</u></b>	<b><u>\$ 951,032</u></b>	<b><u>\$ (454,765)</u></b>	<b><u>\$ 31,143,922</u></b>
<b>Deferred Outflows of Resources</b>				
Deferred amount related to pension plan	\$ 3,231,900	\$ -	\$ -	\$ 3,231,900
Deferred amount related to OPEB	<u>1,252,406</u>	<u>-</u>	<u>-</u>	<u>1,252,406</u>
Total deferred outflows of resources	<b><u>\$ 4,484,306</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,484,306</u></b>

*See Independent Auditor's Report*

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

Consolidating Statement of Net Position, continued

June 30, 2024

	<u>KLC</u>	<u>KLCIA</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 305,393	\$ 6,019	\$ -	\$ 311,412
Accrued liabilities	412,125	31,924	-	444,049
Unearned revenue	674,812	32,439	-	707,251
Due to related parties	323,568	354,765	(354,765)	323,568
Current maturities of note payable	73,380	-	-	73,380
Bonds payable	216,454	-	-	216,454
Current maturities of leases payable	26,782	-	-	26,782
Current maturities of SBITA liability	36,097	-	-	36,097
Total current liabilities	<u>2,068,611</u>	<u>425,147</u>	<u>(354,765)</u>	<u>2,138,993</u>
Accrued compensated absences	1,155,912	-	-	1,155,912
Note payable, net of current maturities	244,815	-	-	244,815
Leases payable, net of current maturities	63,690	-	-	63,690
SBITA liability, net of current maturities	1,701	-	-	1,701
Net pension liability	14,597,492	-	-	14,597,492
Total liabilities	<u>\$ 18,132,221</u>	<u>\$ 425,147</u>	<u>\$ (354,765)</u>	<u>\$ 18,202,603</u>
<b>Deferred Inflows of Resources</b>				
Deferred amount related to pension plan	\$ 1,742,908	\$ -	\$ -	\$ 1,742,908
Deferred amount related to OPEB	5,133,610	-	-	5,133,610
Deferred amount related to rental income	6,363,603	-	-	6,363,603
Total deferred inflows of resources	<u>\$ 13,240,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,240,121</u>
<b>Net Position</b>				
Invested in capital assets, net of related debt	\$ 4,798,555	\$ -	\$ -	\$ 4,798,555
Unrestricted and assigned by the KLC Executive Board for future city advocacy and programming in lieu of dues increase	314,480	-	-	314,480
Unrestricted and assigned by the KLC Executive Board for capital projects	113,000	-	-	113,000
Unrestricted and unassigned, available for general activities	(1,466,416)	525,885	(100,000)	(1,040,531)
Total net position	<u>\$ 3,759,619</u>	<u>\$ 525,885</u>	<u>\$ (100,000)</u>	<u>\$ 4,185,504</u>

*See Independent Auditor's Report*

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

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

Year ended June 30, 2024

	KLC	KLCIA	Consolidating Entries	Consolidated Total
Operating revenue:				
Administrative fee - KLCIS	\$ 5,682,910	\$ -	\$ -	\$ 5,682,910
Administrative fee - KLCWCT	2,825,991	-	-	2,825,991
Administrative fee - Bond Pools	801,292	-	-	801,292
Administrative fee - KLCUCRT	127,859	-	-	127,859
Commissions	2,822,020	2,970,547	(2,822,020)	2,970,547
Member dues	776,328	-	-	776,328
Member meeting and training income	546,119	-	-	546,119
Publication income	11,841	-	-	11,841
Other	<u>900,970</u>	<u>15,171</u>	<u>-</u>	<u>916,141</u>
Total operating revenue	<b>14,495,330</b>	<b>2,985,718</b>	<b>(2,822,020)</b>	<b>14,659,028</b>
Operating expenses	<u>14,122,943</u>	<u>2,973,467</u>	<u>(2,822,020)</u>	<u>14,274,390</u>
Operating income	<b>372,387</b>	<b>12,251</b>	<b>-</b>	<b>384,638</b>
Non-operating revenues (expenses):				
Rental income	1,293,601	-	-	1,293,601
Interest and investment income	1,771,938	58,606	-	1,830,544
Interest expense	(50,079)	-	-	(50,079)
Building expenses	<u>(658,970)</u>	<u>-</u>	<u>-</u>	<u>(658,970)</u>
Total non-operating revenues	<u>2,356,490</u>	<u>58,606</u>	<u>-</u>	<u>2,415,096</u>
Change in net position	<b>2,728,877</b>	<b>70,857</b>	<b>-</b>	<b>2,799,734</b>
Net position, beginning of year	<u>1,030,742</u>	<u>455,028</u>	<u>(100,000)</u>	<u>1,385,770</u>
Net position, end of year	<u>\$ 3,759,619</u>	<u>\$ 525,885</u>	<u>\$ (100,000)</u>	<u>\$ 4,185,504</u>

*See Independent Auditor's Report*

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

**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>2024</u>	<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>
Portion of the net pension liability	0.23 %	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	\$ 14,597	\$ 15,210	\$ 13,900	\$ 17,394	\$ 15,750	\$ 13,037	\$ 12,163	\$ 10,030	\$ 8,292	\$ 6,466
Covered- Employee Payroll *	\$ 6,782	\$ 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	215.23 %	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	57.48 %	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 Independent Auditor's Report and the Notes to the Required Supplementary Information*



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

**Schedules of Required Supplementary Information**

Schedules of the Proportionate Share of the Net OPEB Liability (Asset)

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

For the Years Ended June 30 for the Last Ten Years

	<u>2024</u>	<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>
Portion of the net OPEB liability	0.23 %	0.21 %	0.22 %	0.23 %	0.22 %	0.21 %	0.21 %			
Proportionate share of the net OPEB liability (asset)	\$ (314)	\$ 4,152	\$ 4,173	\$ 5,474	\$ 3,766	\$ 3,801	\$ 4,177			
Covered- Employee Payroll *	\$ 6,782	\$ 5,915	\$ 5,765	\$ 6,169	\$ 5,818	\$ 5,498	\$ 5,277			
Proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	(4.63)%	70.19 %	72.39 %	88.73 %	64.73 %	69.13 %	79.15 %			
Plan fiduciary net position as a percentage of the total OPEB liability	104.23 %	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 (asset), which is as of the prior fiscal year end.

*See Independent Auditor's Report and the Notes to the Required Supplementary Information*

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

**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>2024</u>	<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>
Contractually required contribution	\$ 1,753	\$ 1,803	\$ 1,265	\$ 1,113	\$ 1,191	\$ 944	\$ 796	\$ 736	\$ 633	\$ 631
Contributions in relation to the contractually required contribution	<u>1,753</u>	<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>-</u>	\$ <u>53</u>	\$ <u>38</u>	\$ <u>-</u>	\$ <u>(9)</u>	\$ <u>10</u>	\$ <u>6</u>	\$ <u>43</u>
Covered-employee payroll	\$ 7,510	\$ 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	23.34 %	26.59 %	21.39 %	18.39 %	18.69 %	16.23 %	14.64 %	13.76 %	12.64 %	12.81 %

*See Independent Auditor's Report and the Notes to the Required Supplementary Information*

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

**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>2024</u>	<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>
Contractually required contribution	\$ -	\$ 261	342	274	294	306	258			
Contributions in relation to the contractually required contribution	<u>-</u>	<u>261</u>	<u>345</u>	<u>261</u>	<u>284</u>	<u>306</u>	<u>262</u>			
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ 13</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ (4)</u>			
Covered-employee payroll	\$ 7,510	\$ 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 Independent Auditor's Report and the Notes to the Required Supplementary Information*

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

### Notes to the Required Supplementary Information

1. The OPEB supplemental schedules are intended to show information for ten years. Additional years will be displayed as they become available.
2. The following summarizes key changes in assumptions and benefit terms from year to year.

2024 (CERS plan year ended June 30, 2023): Since the prior measurement date, the Board of Trustees adopted new actuarial assumptions on May 9, 2023. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022", and include a change in the investment return assumption from 6.25% to 6.50%; an increase in the inflation rate from 2.3% to 2.5%; a change in the healthcare trend rates at January 1, 2025 used from an initial trend starting at 6.3% to 6.8% for pre-65 retirees and from an initial trend starting at 6.3% to 8.5% for post-65 retirees; and an increase in the discount rate from 5.70% to 5.93%. House Bill 506 passed during the 2023 legislative session and reinstated the Partial Lump Sum Option Form of payment for members who retire on and after January 1, 2024, and adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances.

2023 (CERS plan year ended June 30, 2022): Since the prior measurement date, the discount rate used to calculate the total OPEB liability increased from 5.20% to 5.70%. 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.

2022 (CERS plan year ended June 30, 2021): Senate Bill 169, passed during the 2021 Legislative Session, increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty related disability. The discount rate used to calculate the total OPEB liability changed from 5.34% to 5.20%.

2021 (CERS plan year ended June 30, 2020): Senate Bill 249 passed during the 2020 Legislative Session, changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. Additionally, House Bill 271 passed during the 2020 Legislative Session, 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. The payroll growth assumption was changed to 3.30% to 10.30% for the pension plan.

2020 (CERS plan year ended June 30, 2019): 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; 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. The payroll growth assumption changed to 3.30% to 10.30% for the OPEB plan.

## KENTUCKY LEAGUE OF CITIES, INC. AND SUBSIDIARY

### Notes to the Required Supplementary Information, continued

2019 (CERS plan year ended June 30, 2018): 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.

2018 (CERS plan year ended June 30, 2017): 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%.

2017 (CERS plan year ended June 30, 2016): None

2016 (CERS plan year ended June 30, 2015): 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.



**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 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 Subsidiary (collectively, KLC), which comprise KLC's consolidated statement of net position as of June 30, 2024, 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 16, 2024.

**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 16, 2024