

KENTUCKY LEAGUE OF CITIES FUNDING TRUST
LEASE PROGRAM REVENUE BONDS
Combined Financial Statements and Supplementary
Information

*Years Ended June 30, 2012 and 2011
with Report of Independent Auditors*

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DEAN || DORTON || ALLEN || FORD^{PLLC}

Report of Independent Auditors

Board of Trustees
 Kentucky League of Cities Funding Trust
 Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Trust Estates of the City of Jeffersontown, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate Series 2000; City of Newport, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate Series 2002; City of Fort Mitchell, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate 2002 Series A; City of Morehead, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate Series 2004 A; City of Richmond, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate 2006 Series A; City of Williamstown, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate 2008 Series A; and City of Williamstown, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate 2008 Series B (collectively referred to as "the Kentucky League of Cities Funding Trust Lease Program Revenue Bonds" or "the Trust Estates") which comprise the combined statement of financial position as of June 30, 2012, and the related combined statements of activities and cash flows for the year then ended and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

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

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

Basis for Qualified Opinion

As further explained in Note 12 to the combined financial statements, the Trust Estates record a participant's share of issuance costs to originate a lease as income in the accompanying combined statements of activities in the year the lease is closed. These costs should be deferred and amortized to income over the life of the lease using the effective interest method in order to conform to accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky League of Cities Funding Trust Lease Program Revenue Bonds as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accompanying Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information on pages 36 - 41 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Predecessor Auditors' Report

The combined financial statements of the Trust Estates, as of and for the year ended June 30, 2011, were audited by other auditors whose report dated April 16, 2012, expressed a qualified opinion on those statements for the same reason as described in the Basis for Qualified Opinion paragraph above.



DEAN DORTON ALLEN FORD, PLLC

May 23, 2013
Lexington, Kentucky

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combined Statements of Financial Position

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 2,488,292	\$ 8,865,561
Certificate of deposit	5,006,089	5,005,096
Repurchase agreements	9,960,646	13,600,263
Investment agreements	21,197,880	24,391,221
Accrued investment income receivable	41,895	38,231
Accrued interest and fees receivable - leases	288,514	475,008
Lease agreement receivables	166,630,895	187,650,936
Lease agreement receivables - unrealized appreciation in fair value	14,533,531	7,030,720
Prepays and other current assets	-	2,664
Costs of debt issuance, net	<u>1,877,676</u>	<u>2,069,100</u>
Total assets	<u>\$ 222,025,418</u>	<u>\$ 249,128,800</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 599,402	\$ 782,130
Accrued interest payable - bonds	30,528	24,832
Interest rate exchange - liability	14,470,258	6,974,147
Accrued arbitrage rebate	211,729	880,738
Bonds payable	<u>203,820,000</u>	<u>237,325,000</u>
Total liabilities	219,131,917	245,986,847
Net assets, unrestricted	<u>2,893,501</u>	<u>3,141,953</u>
Total liabilities and net assets	<u>\$ 222,025,418</u>	<u>\$ 249,128,800</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combined Statements of Activities

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Income from lease agreement receivables	\$ 5,772,833	\$ 6,422,212
Income from lessee issuance costs	-	2,677
Investment interest income and other income	337,469	434,903
Arbitrage credit	695,376	-
Gain on swap effectiveness	<u>6,700</u>	<u>-</u>
Total revenues	6,812,378	6,859,792
Expenses:		
Administrative and trustee fees	515,910	822,190
Letter of credit fees	1,897,658	1,903,912
Remarketing fees	182,930	228,092
Professional and other fees	198,574	81,724
Arbitrage rebate	76,476	11,774
Bond interest expense	497,789	631,777
Swap interest expense	3,500,069	3,227,820
Amortization expense	191,424	211,689
Loss on swap ineffectiveness	<u>-</u>	<u>6,700</u>
Total expenses	<u>7,060,830</u>	<u>7,125,678</u>
Change in net assets	(248,452)	(265,886)
Net assets, beginning of year	<u>3,141,953</u>	<u>3,407,839</u>
Net assets, end of year	<u>\$ 2,893,501</u>	<u>\$ 3,141,953</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combined Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (248,452)	\$ (265,886)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of costs of debt issuance	191,424	211,689
(Gain) loss on hedge effectiveness	(6,700)	6,700
Increase (decrease) in cash due to changes in:		
Accrued investment income receivable	(3,664)	7,842
Accrued interest and fees receivable - leases	186,494	94,506
Prepays and other current assets	2,664	-
Accounts payable and other accrued expenses	(182,728)	(222,959)
Lease rebates payable	-	(366,585)
Accrued interest payable - bonds	5,696	(37,261)
Accrued arbitrage rebate	<u>(669,009)</u>	<u>(227,307)</u>
Net cash used in operating activities	(724,275)	(799,261)
Cash flows from investing activities:		
Proceeds from lease agreements	21,020,041	22,760,088
Lease agreements executed	-	(150,376)
Net proceeds from (investment in) repurchase and investment agreements and certificates of deposit	<u>6,831,965</u>	<u>(1,202,405)</u>
Net cash provided by investing activities	27,852,006	21,407,307
Cash flows from financing activities:		
Principal payments on bonds	<u>(33,505,000)</u>	<u>(18,310,000)</u>
Net cash used in financing activities	<u>(33,505,000)</u>	<u>(18,310,000)</u>
Net (decrease) increase in cash and cash equivalents	(6,377,269)	2,298,046
Cash and cash equivalents, beginning of year	<u>8,865,561</u>	<u>6,567,515</u>
Cash and cash equivalents, end of year	<u>\$ 2,488,292</u>	<u>\$ 8,865,561</u>

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combined Statements of Cash Flows, continued

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest on bonds	\$ 492,093	\$ 669,038
Interest on interest rate exchanges	3,500,069	3,755,980
Noncash investing transactions:		
Change in lease agreement receivables - unrealized appreciation in fair value	\$ 7,502,811	\$ (936,469)
Change in the fair value of interest rate exchanges	(7,496,111)	929,769

See accompanying notes.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements

1. Nature of Organization and Operations

The Kentucky League of Cities (KLC, or the Program Administrator) is a voluntary association of cities created in 1927 to assist municipal officials in representing the interest of cities and to provide services to members fostering improved municipal government in Kentucky.

The financial services department of the Kentucky League of Cities provides tax-exempt financing to Kentucky cities. By taking advantage of economies of scale through tax exempt bond pools, the financial services department provides its members access to low interest rate loans to fund capital improvement projects and equipment purchases (the Lease Program).

In December 1992, certain governmental agencies of the state entered into an Interlocal Cooperation Agreement pursuant to KRS 65.210 through 65.300, KRS 58.010 through 58.140, and KRS 65.940 through 65.956 (the Act), which authorized the creation of the Kentucky League of Cities Funding Trust (the Funding Trust). The Funding Trust issues tax-exempt bonds in order to provide funding for leases to participating members at variable rates of interest.

The Funding Trust is governed by a Board of Trustees consisting of five members. At the time of appointment, members of the Board of Trustees are required to be an elected or an appointed official of a Kentucky city.

To facilitate the purposes of the lease program, several Kentucky municipalities (the Issuers) issued seven variable rate Kentucky League of Cities Funding Trust Lease Program Revenue Bonds (the Bonds). Each Series had an original issue amount of \$50,000,000. Below is a summary of the seven trust estates (collectively, the Trust Estates) that comprise the Kentucky League of Cities Funding Trust Lease Program:

Trust Estate	Issuer	Variable Rate Bond Series	Issue Date	Maturity Date
2000 Trust Estate	City of Jeffersontown, KY	Series 2000	March 2000	March 2030
2002 Trust Estate	City of Newport, KY	Series 2002	April 2002	April 2032
2002A Trust Estate	City of Fort Mitchell, KY	2002 Series A	October 2002	October 2032
2004A Trust Estate	City of Morehead, KY	Series 2004 A	June 2004	June 2034
2006A Trust Estate	City of Richmond, KY	2006 Series A	March 2006	March 2036
2008A Trust Estate	City of Williamstown, KY	2008 Series A	July 2008	July 2038
2008B Trust Estate	City of Williamstown, KY	2008 Series B	February 2009	December 2038

The Trust Estates are defined as all the rights, title, and interest of the Issuers and the Funding Trust in and to (i) the leases, (ii) any interest rate exchange agreements, (iii) the lease rental payments due under the leases, (iv) the collateral documents related thereto, if any, (v) all monies and securities, including earnings thereon, held in the funds and accounts created in the Trust Indenture Agreements (the Trust Indentures) other than the Rebate Account and the Program Discretionary Account (see Note 6), and (vi) all property rights, and assets of any kind and nature that are now or hereafter from time to time pledged, assigned, or transferred as and for security under the Trust Indentures by the Issuers or the Funding Trust or by anyone on their behalf or with written consent.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

1. Nature of Organization and Operations, continued

Upon the ultimate termination of each Trust Estate any assets remaining after satisfaction of all Trust Estate liabilities will be returned to the Funding Trust.

2. Summary of Significant Accounting Policies

The combined 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 combined financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Trust Estates in the preparation of its combined financial statements:

Basis of Presentation

The combined financial statements of the Trust Estates have been prepared on the accrual basis of accounting.

Investments Held by the Trustee

All invested funds are held by the Trustees (see Note 3). The Trustees are mandated by the Trust Indentures as to the types of investments in which each Trust Estate can be invested. GAAP requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the financial statements of not-for-profit organizations. Accordingly, all invested funds held by the Trustees are stated at fair value based on the Trustees' independent valuation services.

Cash and Cash Equivalents

The Funding Trust considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents primarily consist of money market funds invested in government and government agency securities.

Lease Agreement Receivables

Lease agreement receivables represent the principal obligation of the lease program participants. Accordingly, the lease agreement receivables balance as of June 30, 2012 and 2011 are stated at the amount the Funding Trust expects to collect on the outstanding balances. Lease agreement receivables are written off as uncollectible if no payment is received after all collection efforts have been exhausted. Receivables are reviewed for collectability when they become past due and an allowance for doubtful accounts is established, if deemed necessary.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Lease Agreement Receivables, continued

Any lease rental payment that is not paid within ten days of the date due bears interest at the late payment rate as defined in the lease agreement. Failure by the lessee to pay any lease rental payments at the time specified in the lease agreement is considered to be past due. As of June 30, 2012 and 2011, respectively, there were a total of 7 and 2 leases past due, totaling approximately \$50,000 and \$1,005,000. Further detail regarding these leases may be found in Note 7. An allowance for doubtful accounts is not reflected in these combined financial statements as the Funding Trust considers all lease receivables to be fully collectible. The income from the lease agreement receivables is representative of the interest income on the leases recognized under the effective interest method and the participants' share of administrative, credit, issue, and fiduciary fees of the lease programs.

Costs of Debt Issuance

Costs of debt issuance related to the bond issuance are amortized over the life of the bond issues (30 years) using the effective interest method. Amortization expense of bond issuance costs for the years ending June 30, 2012 and 2011 are as follows:

	2012	2011
2000 Trust Estate	\$ 21,057	\$ 20,423
2002 Trust Estate	14,766	22,163
2002A Trust Estate	23,714	27,576
2004A Trust Estate	22,328	25,084
2006A Trust Estate	29,113	32,495
2008A Trust Estate	56,732	44,561
2008B Trust Estate	23,714	39,387
	<u>\$ 191,424</u>	<u>\$ 211,689</u>

Amortization is expected to be approximately as follows for the years ended June 30, 2013 through 2017:

	2013	2014	2015	2016	2017
2000 Trust Estate	\$ 16,010	\$ 15,075	\$ 14,139	\$ 13,202	\$ 12,264
2002 Trust Estate	16,726	14,687	13,877	13,067	12,255
2002A Trust Estate	18,044	17,148	16,251	15,353	14,455
2004A Trust Estate	22,650	20,036	19,089	18,140	17,191
2006A Trust Estate	15,483	22,128	21,129	20,130	19,130
2008A Trust Estate	34,859	32,571	30,280	27,986	25,691
2008B Trust Estate	40,739	26,227	25,168	24,109	23,048
	<u>\$ 164,511</u>	<u>\$ 147,872</u>	<u>\$ 139,933</u>	<u>\$ 131,987</u>	<u>\$ 124,034</u>

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Derivative Financial Instruments

The Funding Trust accounts for interest rate exchange agreements in accordance with GAAP which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the statements of financial position as either an asset or liability measured at its fair value.

Net Assets

There are no donor-imposed restrictions on the net assets of the Trust Estates, and thus the net assets are considered "unrestricted" as defined by GAAP.

Subsequent Events

The Trust Estates' management evaluates events and transactions that occur after the statements of financial position date as potential subsequent events. This evaluation was performed through May 23, 2013, the date on which the combined financial statements were issued.

3. Contractual Agreements

Administrative Services

Pursuant to the program administration agreements, the Program Administrator provides administrative services to the Funding Trust. These administrative services include professional, administrative, and financial functions, including providing personnel necessary for the orderly and proper administration of the Funding Trust and its lease program.

The following is a summary of the date of execution for each of the Trust Estates' administration agreements and the initial fee paid to the Program Administrator on the date of delivery of the Bonds.

<u>Trust Estate</u>	<u>Date of Execution</u>	<u>Initial Fee</u>
2000 Trust Estate	March 2000	\$ 50,000
2002 Trust Estate	April 2002	70,000
2002A Trust Estate	October 2002	85,000
2004A Trust Estate	June 2004	125,000
2006A Trust Estate	March 2006	200,000
2008A Trust Estate	July 2008	160,000
2008B Trust Estate	December 2008	160,000

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

3. Contractual Agreements, continued

Administrative Services, continued

In addition, the Program Administrator bills the Trust Estate an administration fee for providing these services. The administration fee is equal to 0.25% of the aggregate unpaid principal components of all lease rental payments. This fee is payable from and only to the extent funds are available in the Trust Estates' Revenue Accounts (see Note 6) or otherwise available from the Trust Estates. The costs of these services are included as a component of administrative and trustee fees in the accompanying combined statements of activities. The lessees reimburse the Trust Estates for the cost of these services by paying a monthly administrative fee in addition to lease interest. These fees are included as a component of income from lease agreement receivables in the accompanying combined statements of activities.

The program administration agreements expire upon the earlier of the date the Bonds are fully redeemed or the date specified in a 30 days prior written notice of termination delivered by the Funding Trust to the Program Administrator.

Trustee Services

The Trustees, dates of applicable trust agreements, and annual trustee fees are summarized below:

Trust Estate	Trustee	Date of Trust Agreement	Trustee Fee
2000 Trust Estate	U.S. Bank National Assn.	March 2000	\$4,500 annually, plus \$750 per lease outstanding
2002 Trust Estate	Huntington National Bank	July 2008	\$4,000 annually
2002A Trust Estate	Huntington National Bank	July 2008	\$4,000 annually
2004A Trust Estate	U.S. Bank National Assn.	June 2004	\$10,000 annually, plus \$200 per lease outstanding
2006A Trust Estate	Bank of New York Mellon	March 2006	\$5,000 annually, plus \$1,000 per lease outstanding
2008A Trust Estate	Bank of New York Mellon	July 2008	\$5,000 annually, plus \$250-\$1,500 per lease outstanding
2008B Trust Estate	U.S. Bank National Assn.	December 2008	\$10,000 annually, plus \$200 per lease outstanding

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

3. Contractual Agreements, continued

Trustee Services, continued

The Trustees for the Trust Estates hold investments, receive lease rental payments, maintain appropriate books and records to account for all funds established under the Trust Indenture, and conduct other transactions as directed by the Program Administrator. In return for the services provided by the Trustees, the Trust Estates pay annual trustee fees. The annual fees are a component of administrative and trustee fees in the accompanying combined statements of activities.

Credit Facility

The Funding Trust and U.S. Bank are party to Letter of Credit and Reimbursement Agreements (the Credit Facilities) for each of the Trust Estates. Concurrent with the Agreements, U.S. Bank issued irrevocable transferable direct pay letters of credit in favor of the Trustees which are used by the Funding Trust to facilitate the redemption of the Bonds immediately prior to their remarketing (see Bond Remarketing). The expiration dates of the initial terms of the letters of credit are listed below. The Credit Facilities expire unless ninety days prior to the expiration date, U.S. Bank notifies the Trustee that U.S. Bank intends to extend the date. In no case shall any such renewal or extension extend the termination date beyond the maturity date of the Bonds. The date through which the Credit Facilities have been extended and the available balance under the letters of credit as of June 30, 2012 and 2011 are listed below.

Trust Estate	Original Maturity Date	Extended Maturity Date	Amount Available as of	
			June 30, 2012	June 30, 2011
2000 Trust Estate	March 2003	April 2014	\$ 20,117,500	\$ 21,985,523
2002 Trust Estate	April 2005	April 2014	17,458,566	19,910,268
2002A Trust Estate	October 2005	October 2014	27,679,131	30,636,647
2004A Trust Estate	June 2007	April 2014	31,968,279	37,390,363
2006A Trust Estate	March 2009	April 2014	35,784,631	43,631,370
2008A Trust Estate	July 2011	July 2014	38,619,057	46,567,123
2008B Trust Estate	February 2010	April 2014	<u>34,953,205</u>	<u>40,404,044</u>
			<u>\$ 206,580,369</u>	<u>\$ 240,525,338</u>

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

3. Contractual Agreements, continued

Credit Facility, continued

In return for the Credit Facilities, each Trust Estate paid a one-time commitment fee of \$10,000. The Trust Estates also pay annual letter of credit fees to U.S. Bank as follows:

2000 Trust Estate, 2002 Trust Estate, 2002A Trust Estate, 2004A Trust Estate, 2006A Trust Estate

Letter of credit fees are equal to 0.77% of the maximum amount available to be drawn at such time under the letter of credit, less the amount corresponding to the principal balance outstanding on fixed rate leases, for the period July 1, 2009 through December 31, 2009; 1.1% of the maximum amount available to be drawn at such time under the letter of credit, less the amount corresponding to the principal balance outstanding on fixed rate leases, for the period January 1, 2010 through December 31, 2010; and 1.25% of the maximum amount available to be drawn at such time under the letter of credit, less the amount corresponding to the principal balance outstanding on fixed rate leases, for the period January 1, 2011 through the maturity date. The letter of credit fee for the amount available to be drawn under the Credit Facilities corresponding to the principal balance outstanding on fixed rate leases and on investments in guaranteed investment contracts will remain at 0.4% through the termination of the Credit Facilities.

2008A Trust Estate

Subject to a July 2009 amendment, the letter of credit fees were equal to 0.77% of the unpaid principal component of all variable rate general obligation leases and 0.40% of the unpaid principal component of all fixed rate general obligation leases; 1.02% of the unpaid principal component of all variable rate revenue leases and 0.65% of the unpaid principal component of all fixed rate revenue leases; and 0.4% of the maximum amount available to be drawn at such time under the Credit Facility, less the amount corresponding to the unpaid principal component of all general obligation and revenue leases for the period July 1, 2009 through December 31, 2009.

The fees corresponding to the unpaid principal component of variable rate leases increase in subsequent periods as follows: annual fees increase to 1.10% and 1.25% of the unpaid principal component of all variable rate general obligation leases for the periods ending December 31, 2010 and at the maturity date of the agreement, respectively; and to 1.35% and 1.50% of the unpaid principal component of all variable rate revenue leases for the periods ending December 31, 2010 and at the termination date of the Credit Facility, respectively. All other fees remain the same through the termination date of the Credit Facility.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

3. Contractual Agreements, continued

Credit Facility, continued

2008B Trust Estate

Subject to a July 2009 amendment, the letter of credit fees were equal to 1.14% of the unpaid principal component of all variable rate general obligation leases and 0.77% of the unpaid principal component of all fixed rate general obligation leases; 1.47% of the unpaid principal component of all variable rate revenue leases and 1.10% of the unpaid principal component of all fixed rate revenue leases; and 0.4% of the maximum amount available to be drawn at such time under the Credit Facility, less the amount corresponding to the unpaid principal component of all general obligation and revenue leases for the period July 1, 2009 through December 31, 2009.

The fees corresponding to the unpaid principal component of variable rate leases increase in subsequent periods as follows: annual fees increase to 1.47% and 1.62% of the unpaid principal component of all variable rate general obligation leases for the periods ending December 31, 2010 and at the termination date of the agreement, respectively; and to 1.80% and 1.95% of the unpaid principal component of all variable rate revenue leases for the periods ending December 31, 2010 and at the maturity date of the Credit Facility, respectively. All other fees remain the same through the termination date of the Credit Facility.

The Trust Estates also pay a drawing fee of \$50 per disbursement made by U.S. Bank, and a transfer fee of \$2,500 if the Issuer requests a transfer of the letter of credit to a successor Trustee.

Bond Remarketing

As further discussed in Note 8, the Bonds, in the variable rate bond form, are considered Weekly Rate Bonds with the ability to be converted to Daily Rate Bonds, Adjustable Rate Bonds, or Fixed Rate Bonds.

Under the terms of May 2010 agreements, Sterne Agee & Leach, Inc. (Sterne Agee or the Remarketing Agent) has agreed to use its best efforts to remarket the Bonds. These Bonds are to be sold at the most favorable interest rates and terms that will result in a sale price equal to the principal amount of the Bonds sold, together with accrued interest, if any, thereon. Proceeds from the Bonds are used to repay draws on the Credit Facilities.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

3. Contractual Agreements, continued

Bond Remarketing, continued

Under the original remarketing agreement, the Trust Estates paid one-time fees upon issuance of the Bonds for services related to the competitive sale of the Bonds. These one-time fees are summarized below:

<u>Trust Estate</u>	<u>One-time Remarketing Fee</u>
2000 Trust Estate	\$ 31,646
2002 Trust Estate	200,000
2002A Trust Estate	185,000
2004A Trust Estate	205,000
2006A Trust Estate	205,000
2008A Trust Estate	205,000
2008B Trust Estate	<u>205,000</u>
	<u>\$ 1,236,646</u>

These fees are being amortized over the remaining life of the Bonds using the effective interest method. Additionally, the Trust Estate pays remarketing fees to Sterne Agee equal to 0.08% (2000 Trust Estate) or 0.10% (all other Trust Estates) of the principal amount of the outstanding Bonds.

The Sterne Agee remarketing agreement shall continue to be in effect up until and including the earlier of the date of the final payment on the Bonds or any date on which all Bonds bear interest at the fixed rate to maturity. The Remarketing Agent may be removed or replaced at any time by the Funding Trust or the Issuer upon 30 days prior written notice.

Paying Agent

Cede & Co. (partnership nominee of The Depository Trust Company) is the registered bond holder under the terms set forth in the Trust Indenture. Cede & Co. receives funds from the Trustee in payment of the Trust Estate's principal and interest obligations and disburses such funds to the participants, as defined in Trust Indenture, who in turn pay the beneficial holders of the Bonds.

4. Fair Value of Financial Instruments

GAAP requires fair value information for financial instruments. Certain financial instruments, such as lease contracts, are specifically excluded. The fair values of the Trust Estate's assets and liabilities that qualify as financial instruments approximate the carrying amounts presented in the accompanying combined statements of financial position.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

4. Fair Value of Financial Instruments, continued

The fair value provisions of GAAP establish a single authoritative definition of fair value, set out a framework for measuring fair value, and require additional disclosures about fair value measurements. GAAP also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest to lowest priority, are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Funding Trust's own assumptions.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the type of instrument, the liquidity of the markets, and other characteristics particular to the instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The following is a description of the valuation methodologies used for assets and liabilities of the Trust Estates measured at fair value:

Certificate of Deposit

The certificate of deposit is a highly liquid investment with an original maturity date of greater than three months. The certificate of deposit is renewed at the discretion of the Funding Trust. The fair value of the instrument approximates its carrying value (Level 2).

Repurchase and Investment Agreements

The repurchase and investment agreements (see Notes 5 and 6) were negotiated and entered into in connection with specific financing transactions. Due to the uniqueness of the arrangements, the lack of transferability, and the fact that the principal amounts invested, in most cases, fluctuate over the terms of the agreements, there are no identical instruments traded in active markets. The agreements are collateralized by obligations issued or guaranteed by the United States government and its agencies for which quoted prices in active markets are available. Accordingly, fair values of the instruments approximate the respective carrying values (Level 2).

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

4. Fair Value of Financial Instruments, continued

Interest Rate Exchange Agreements

The Trustees have entered into interest rate exchange agreements upon direction of the Funding Trust to hedge against changes in the fair value of underlying fixed-rate lease agreement receivables (see Note 9). These are over-the-counter agreements and identical agreements may not be available on the active market. The swap values are determined based on comparing the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index forward rate curve with the fixed rates on the lease agreement receivables. The fair values of the swap contracts approximate the carrying value of these financial instruments (Level 2).

Letter of Credit and Reimbursement Agreement

As described in Note 3, the Funding Trust and U.S. Bank are party to Credit Facilities to provide additional collateral for the Bonds outstanding. The Credit Facilities are integral to the bond issue and, as such, cannot be marketed separately. It is the opinion of management that any fair value related to these Credit Facilities has already been included in the fair values of the related Bonds.

The following table summarizes the combined assets and liabilities measured at fair value as of June 30, 2012 and 2011.

	<u>Level 2</u>	
	<u>2012</u>	<u>2011</u>
Assets:		
Certificate of deposit	\$ 5,006,089	\$ 5,005,096
Repurchase agreements	9,960,646	13,600,263
Investment agreements	<u>21,197,880</u>	<u>24,391,221</u>
	<u>\$ 36,164,615</u>	<u>\$ 42,996,580</u>
Liabilities:		
Interest rate exchanges	<u>\$ 14,470,258</u>	<u>\$ 6,974,147</u>

5. Concentrations of Credit Risk

Financial instruments that potentially subject the Trust Estates to concentrations of credit risk consist primarily of temporary cash investments, the repurchase and investment agreements, lease agreement receivables, and the interest rate exchange agreements (see Note 9).

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

5. Concentrations of Credit Risk, continued

As indicated in Notes 2 and 6, the Trust Estates' cash equivalents consist of money market funds maintained by the Trustees. Money market funds are not federally insured by the federal deposit insurance corporation but do hold government and government agency securities and the financial institutions managing the money market funds are major financial institutions with an investment grade credit rating. Consequently, the Funding Trust considers the risk associated with these money market funds to be minimal.

The stated interest rates, terms, and principal amounts pertaining to the repurchase and investment agreements (the Agreements) (see Note 6) are generally correlated in such a way that changes in market interest rates should not have a material net impact on the values of the Agreements. The repurchase and investment agreements held by the Trustees are uninsured and unregistered. However, the government securities underlying the Agreements are registered. The Agreements are collateralized in obligations of the United States and its agencies. Such collateral is held in the Trustee's name by a custodial agent for the term of the Agreement. The custodial agents are as follows:

<u>Trust Estate</u>	<u>Custodial Agent</u>
2000 Trust Estate	Norwest Bank Minnesota
2002 Trust Estate	The Bank of New York
2002A Trust Estate	U.S. Bank
2004A Trust Estate	The Bank of New York
2006A Trust Estate	The Bank of New York
2008A Trust Estate	Wells Fargo Bank, N.A.
2008B Trust Estate	Wells Fargo Bank, N.A.

As indicated in Note 7, the lease agreement receivables represent the obligations of the lease program participants. Under Kentucky law, such program participants cannot commit to long-term debt, and therefore, lease rental payments are subject to annual appropriation. Historically, program participants have not defaulted or withdrawn from such long-term lease agreements. The Funding Trust believes that certain processes and precedents are in place to provide reasonable assurance that the leases will be honored by the program participants as long-term, non-cancelable agreements.

Lease agreement receivables from one lessee totaled approximately \$19,147,000 and \$21,316,000 as of June 30, 2012 and 2011, respectively, representing 11% of total lease agreement receivables at each year end.

6. Trust Estate Accounts

Pursuant to the issue of the Bonds, the Funding Trust entered into Trust Indentures with the Trustees. The Trust Indentures provide for the issuance of the Bonds and the establishment of the following accounts/funds to be held by the Trustees:

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

6. Trust Estate Accounts, continued

Bond Proceeds Account

This account was initially funded by the \$50,000,000 in bond proceeds per each bond issuance. The account subsequently funded the Project Account, the Expense Account, the Revenue Account, and the Debt Service Reserve Account. The amounts of the initial funding of these accounts for each Trust Estate are listed below:

	<u>Project Account</u>	<u>Expense Account</u>	<u>Revenue Account</u>	<u>Debt Service Reserve Account</u>	<u>Total</u>
2000 Trust Estate	\$ 44,355,000	\$ 645,000	\$ -	\$ 5,000,000	\$ 50,000,000
2002 Trust Estate	44,355,000	645,000	-	5,000,000	50,000,000
2002A Trust Estate	44,355,000	645,000	-	5,000,000	50,000,000
2004A Trust Estate	44,305,000	695,000	-	5,000,000	50,000,000
2006A Trust Estate	44,355,000	645,000	-	5,000,000	50,000,000
2008A Trust Estate	44,292,000	708,000	-	5,000,000	50,000,000
2008B Trust Estate	44,200,000	723,000	77,000	5,000,000	50,000,000

The account is currently funded by its investment earnings. The account transfers amounts to the Revenue Account at the times and in the amounts required to pay the administrative expenses and the fiduciary fees related to, and interest on, the Bonds.

Project Account

This account was established from bond proceeds to fund the lease programs. In connection with each closing for the lessee, the Trustees create in the Project Account a Lessee Acquisition Account for the lessee and, upon the submission by the lessee of the documents required by and upon the terms and conditions of the lease agreement, the Trustees deposit in a Lessee Acquisition Account an amount equal to the aggregate principal component of lease rental payments under the lease.

The funds in the Lessee Acquisition Account are disbursed to acquire, install, or construct the projects to be leased to the lessee or refund, refinance, and reimburse the lessee for outstanding indebtedness incurred or advancements made for the costs of the project, subject to the limitations set forth in the Trust Indentures regarding refunding, refinancing, and reimbursement. Legal title to the project and all interests therein are held by the lessee subject to the Funding Trust's rights under the provisions of the lease agreement.

Redemption Account

This account is funded by the principal component of any lease rental payment that is not related to a draw on the Debt Service Reserve Account, to the extent deemed necessary by the Trustees, in accounts thereof, for particular Bonds to be redeemed.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

6. Trust Estate Accounts, continued

Revenue Account

This account is funded by the portion of all lease rental payments representative of interest and the administrative, credit, and fiduciary fees which are required by the provisions of the leases to be deposited in the Revenue Account, and any other amounts received by it under the Trust Indentures which are not required to be otherwise deposited into other accounts. The account disburses monies to pay interest on the Bonds, the credit and fiduciary fees pertaining to the Bonds, and the administrative expenses and fiduciary fees in excess of the amounts disbursed from the Expense Account.

Expense Account

This account was established from bond proceeds for the purpose of paying the costs of issuance and subsequent administrative expenses and fiduciary fees, until exhausted.

Program Discretionary Account

This account represents any excess monies as a result of the assets of the Trust Estates exceeding the liabilities against the Trust Estates. Monies in the Program Discretionary Account are disbursed on the direction of the Funding Trust for purposes specified by the Funding Trust. During 2012, no amounts were disbursed from the discretionary accounts at the direction of the Funding Trust. During 2011, \$158,000 and \$84,000 were disbursed from the discretionary accounts of the 2002 Trust Estate and the 2006A Trust Estate, respectively, at the direction of the Funding Trust. These disbursements are included in administrative and trustee fees in the accompanying combined statements of activities.

Prepayment Account

This account is used to hold lessees' optional lease prepayments. The principal component of each prepayment is transferred to the Redemption Account to redeem the portion of the Bonds associated with the lessees' prepayment. Through June 30, 2012, no amounts have been deposited into this account.

Debt Service Reserve Account

This account was established from bond proceeds to be applied if there is a deficiency in the amount available in the Revenue Account to pay interest or the Redemption Account to pay principal on the Bonds (or in either case to reimburse U.S. Bank, the Credit Facility Provider, for such payment).

Rebate Account

This account is used to pay arbitrage rebates (see Note 10), if any, pursuant to section 148 of the Internal Revenue Code. Funds necessary to satisfy the rebate requirement are transferred from other accounts at the written discretion of the Issuers.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

6. Trust Estate Accounts, continued

The accounts of each Trust Estate at June 30, 2012 are summarized as follows:

2000 Trust Estate

	Cash and Cash Equivalents	Investment Agreements	Total
Redemption Account	\$ 86,328	\$ 249,769	\$ 336,097
Revenue Account	46,491	293,829	340,320
Debt Service Reserve Account	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 132,819</u>	<u>\$ 5,543,598</u>	<u>\$ 5,676,417</u>

2002 Trust Estate

	Cash and Cash Equivalents	Repurchase Agreement	Total
Redemption Account	\$ 177,046	\$ -	\$ 177,046
Revenue Account	14,545	-	14,545
Debt Service Reserve Account	5,137	5,000,000	5,005,137
Rebate Account	<u>48</u>	<u>-</u>	<u>48</u>
	<u>\$ 196,776</u>	<u>\$ 5,000,000</u>	<u>\$ 5,196,776</u>

2002A Trust Estate

	Cash and Cash Equivalents	Investment Agreement	Total
Redemption Account	\$ 261,918	\$ -	\$ 261,918
Revenue Account	259,249	-	259,249
Debt Service Reserve Account	<u>5,232</u>	<u>5,000,000</u>	<u>5,005,232</u>
	<u>\$ 526,399</u>	<u>\$ 5,000,000</u>	<u>\$ 5,526,399</u>

2004A Trust Estate

	Cash and Cash Equivalents	Investment Agreements	Total
Redemption Account	\$ 197,035	\$ 10,301	\$ 207,336
Revenue Account	(47,120)	203,797	156,677
Debt Service Reserve Account	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 149,915</u>	<u>\$ 5,214,098</u>	<u>\$ 5,364,013</u>

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

6. Trust Estate Accounts, continued

2006A Trust Estate

	Cash and Cash Equivalents	Repurchase Agreement	Investment Agreements	Total
Redemption Account	\$ 118,613	\$ -	\$ 123,052	\$ 241,665
Revenue Account	83,948	-	317,132	401,080
Debt Service Reserve Account	<u>295</u>	<u>4,955,000</u>	<u>-</u>	<u>4,955,295</u>
	<u>\$ 202,856</u>	<u>\$ 4,955,000</u>	<u>\$ 440,184</u>	<u>\$ 5,598,040</u>

2008A Trust Estate

	Cash and Cash Equivalents	Investment Agreement	Total
Bond Proceeds Account	\$ 10,267	\$ -	\$ 10,267
Redemption Account	279,978	-	279,978
Revenue Account	188,287	-	188,287
Lessee Acquisition Account	2,995	-	2,995
Debt Service Reserve Account	<u>13,265</u>	<u>5,000,000</u>	<u>5,013,265</u>
	<u>\$ 494,792</u>	<u>\$ 5,000,000</u>	<u>\$ 5,494,792</u>

2008B Trust Estate

	Cash and Cash Equivalents	Certificate of Deposit	Repurchase Agreement	Total
Bond Proceeds Account	\$ -	\$ -	\$ 5,646	\$ 5,646
Redemption Account	326,837	-	-	326,837
Revenue Account	456,496	-	-	456,496
Lessee Acquisition Account	1,402	-	-	1,402
Debt Service Reserve Account	<u>-</u>	<u>5,006,089</u>	<u>-</u>	<u>5,006,089</u>
	<u>\$ 784,735</u>	<u>\$ 5,006,089</u>	<u>\$ 5,646</u>	<u>\$ 5,796,470</u>

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

6. Trust Estate Accounts, continued

Total Combined Balances

	Cash and Cash Equivalents	Certificate of Deposit	Repurchase Agreements	Investment Agreements	Total
Bond Proceeds Account	\$ 10,267	\$ -	\$ 5,646	\$ -	\$ 15,913
Redemption Account	1,447,755	-	-	383,122	1,830,877
Revenue Account	1,001,896	-	-	814,758	1,816,654
Lessee Acquisition Account	4,397	-	-	-	4,397
Debt Service Reserve Account	23,929	5,006,089	9,955,000	20,000,000	34,985,018
Rebate Account	<u>48</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48</u>
	<u>\$ 2,488,292</u>	<u>\$ 5,006,089</u>	<u>\$ 9,960,646</u>	<u>\$ 21,197,880</u>	<u>\$ 38,652,907</u>

The accounts of each Trust Estate at June 30, 2011 are summarized as follows:

2000 Trust Estate

	Cash and Cash Equivalents	Investment Agreements	Total
Redemption Account	\$ 20,000	\$ 1,020,490	\$ 1,040,490
Revenue Account	27,682	361,035	388,717
Debt Service Reserve Account	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 47,682</u>	<u>\$ 6,381,525</u>	<u>\$ 6,429,207</u>

2002 Trust Estate

	Cash and Cash Equivalents	Repurchase Agreement	Total
Redemption Account	\$ 1,327,085	\$ -	\$ 1,327,085
Revenue Account	60,211	-	60,211
Debt Service Reserve Account	4,972	5,000,000	5,004,972
Rebate Account	<u>48</u>	<u>-</u>	<u>48</u>
	<u>\$ 1,392,316</u>	<u>\$ 5,000,000</u>	<u>\$ 6,392,316</u>

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

6. Trust Estate Accounts, continued

2002A Trust Estate

	<u>Cash and Cash Equivalents</u>	<u>Investment Agreement</u>	<u>Total</u>
Redemption Account	\$ 1,203,233	\$ -	\$ 1,203,233
Revenue Account	256,458	-	256,458
Debt Service Reserve Account	<u>5,049</u>	<u>5,000,000</u>	<u>5,005,049</u>
	<u>\$ 1,464,740</u>	<u>\$ 5,000,000</u>	<u>\$ 6,464,740</u>

2004A Trust Estate

	<u>Cash and Cash Equivalents</u>	<u>Investment Agreements</u>	<u>Total</u>
Redemption Account	\$ 22,247	\$ 1,689,723	\$ 1,711,970
Revenue Account	19,195	232,472	251,667
Lessee Acquisition Account	1,707,896	-	1,707,896
Debt Service Reserve Account	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 1,749,338</u>	<u>\$ 6,922,195</u>	<u>\$ 8,671,533</u>

2006A Trust Estate

	<u>Cash and Cash Equivalents</u>	<u>Repurchase Agreement</u>	<u>Investment Agreements</u>	<u>Total</u>
Redemption Account	\$ 55,231	\$ -	\$ 670,971	\$ 726,202
Revenue Account	1,220,122	-	416,530	1,636,652
Debt Service Reserve Account	<u>4,452</u>	<u>4,955,000</u>	<u>-</u>	<u>4,959,452</u>
	<u>\$ 1,279,805</u>	<u>\$ 4,955,000</u>	<u>\$ 1,087,501</u>	<u>\$ 7,322,306</u>

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

6. Trust Estate Accounts, continued

2008A Trust Estate

	Cash and Cash Equivalents	Repurchase Agreement	Investment Agreement	Total
Bond Proceeds Account	\$ 10,267	\$ -	\$ -	\$ 10,267
Redemption Account	372,544	-	-	372,544
Revenue Account	235,419	-	-	235,419
Lessee Acquisition Account	1,611,782	-	-	1,611,782
Fiduciary Fees Account	6	-	-	6
Debt Service Reserve Account	<u>4,403</u>	<u>-</u>	<u>5,000,000</u>	<u>5,004,403</u>
	<u>\$ 2,234,421</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>	<u>\$ 7,234,421</u>

2008B Trust Estate

	Cash and Cash Equivalents	Certificate of Deposit	Repurchase Agreement	Total
Bond Proceeds Account	\$ 1	\$ -	\$ 3,645,263	\$ 3,645,264
Redemption Account	290,942	-	-	290,942
Revenue Account	403,227	-	-	403,227
Lessee Acquisition Account	1,402	-	-	1,402
Fiduciary Fees Account	1,687	-	-	1,687
Debt Service Reserve Account	<u>-</u>	<u>5,005,096</u>	<u>-</u>	<u>5,005,096</u>
	<u>\$ 697,259</u>	<u>\$ 5,005,096</u>	<u>\$ 3,645,263</u>	<u>\$ 9,347,618</u>

Total Combined Balances

	Cash and Cash Equivalents	Certificate of Deposit	Repurchase Agreements	Investment Agreements	Total
Bond Proceeds Account	\$ 10,268	\$ -	\$ 3,645,263	\$ -	\$ 3,655,531
Redemption Account	3,291,282	-	-	3,381,184	6,672,466
Revenue Account	2,222,314	-	-	1,010,037	3,232,351
Lessee Acquisition Account	3,321,080	-	-	-	3,321,080
Fiduciary Fees Account	1,693	-	-	-	1,693
Debt Service Reserve Account	18,876	5,005,096	9,955,000	20,000,000	34,978,972
Rebate Account	<u>48</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48</u>
	<u>\$ 8,865,561</u>	<u>\$ 5,005,096</u>	<u>\$ 13,600,263</u>	<u>\$ 24,391,221</u>	<u>\$ 51,862,141</u>

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

6. Trust Estate Accounts, continued

Pursuant to the terms of the repurchase and investment agreements, the Trust Estates receive investment income equal to the interest cost of the outstanding Bonds (the Bond Rate) plus the specified interest rates. These interest rate spreads are guaranteed by the repurchase and investment agreement counterparties. The Bond Rate is the variable rate applicable to the Bonds.

As of June 30, 2012 and 2011, funds were held by the Trustees in the Trustees' names on behalf of the Funding Trust pursuant to the terms of repurchase agreements with the following counterparties:

Trust Estate	Counterparty	Amount Invested		Interest Rate of Bond Rate +
		June 30, 2012	June 30, 2011	
2002 Trust Estate	Bayerische Hypo-Und Vereinsbank Ag	\$ 5,000,000	\$ 5,000,000	1%
2006A Trust Estate	Hypo Public Finance Bank	4,955,000	4,955,000	1.22%
2008B Trust Estate	Bayerische Landesbank	<u>5,646</u>	<u>3,645,263</u>	1.47%
		<u>\$ 9,960,646</u>	<u>\$ 13,600,263</u>	

As of June 30, 2012 and 2011, funds were held by the Trustees in the Trustees' names on behalf of the Funding Trust pursuant to the terms of investment agreements with the following counterparties:

Trust Estate	Counterparty	Amount Invested		Interest Rate of Bond Rate +
		June 30, 2012	June 30, 2011	
2000 Trust Estate	Societe Generale, New York Branch	\$ 5,543,598	\$ 6,381,525	0.85%
2002A Trust Estate	Societe Generale, New York Branch	5,000,000	5,000,000	0.40%
2004A Trust Estate	FSA Capital Management	5,214,098	6,922,195	0.44* - 0.49**%
2006A Trust Estate	RaboBank International	440,184	1,087,501	0.61%
2008A Trust Estate	Royal Bank of Canada	<u>5,000,000</u>	<u>5,000,000</u>	0.86%
		<u>\$ 21,197,880</u>	<u>\$ 24,391,221</u>	

* Rate of return on Redemption and Revenue Accounts

** Rate of return on Debt Service Reserve Accounts

As of June 30, 2011, \$5,005,096 was invested in a certificate of deposit at BB&T bank, bearing interest at 0.15%. The certificate of deposit matured on August 29, 2011. In September 2011, the Trust Estate purchased multiple certificates of deposit, all under \$250,000, with varying maturity dates and interest rates.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

6. Trust Estate Accounts, continued

As of June 30, 2012 and 2011, the following Trust Estate funds are invested in 1) money market funds investing primarily in obligations issued or guaranteed by the United States government and its agencies; or 2) the Huntington Protected Deposit Account, a fully federally-insured, interest-bearing deposit sweep account:

Trust Estate	Investment	Amount Invested	
		June 30, 2012	June 30, 2011
2000 Trust Estate	First American Gov't Obligation Fund	\$ 132,819	\$ 47,682
2002 Trust Estate	Huntington Protected Deposit Account	196,776	1,392,316
2002A Trust Estate	Huntington Protected Deposit Account	526,399	1,464,740
2004A Trust Estate	First American Gov't Obligation Fund	149,915	41,442
2006A Trust Estate	Fidelity Institutional Government Fund	202,561	1,275,353
2008A Trust Estate	Fidelity Institutional Government Fund	494,792	2,234,421
2008B Trust Estate	First American Gov't Obligation Fund	<u>783,333</u>	<u>695,857</u>
		<u>\$ 2,486,595</u>	<u>\$ 7,151,811</u>

As of June 30, 2012 and 2011, the following Trust Estate funds are uninvested cash deposits held by the Trustees:

Trust Estate	Financial Institution	Amount on Deposit	
		June 30, 2012	June 30, 2011
2004A Trust Estate	U.S. Bank National Association	\$ -	\$ 1,707,896
2006A Trust Estate	Bank of New York Mellon	295	4,452
2008B Trust Estate	U.S. Bank National Association	<u>1,402</u>	<u>1,402</u>
		<u>\$ 1,697</u>	<u>\$ 1,713,750</u>

Of these cash balances, \$0 and \$1,457,896 is uninsured as of June 30, 2012 and 2011, respectively. These funds represent payments received from lessees on June 30, 2011. On July 1, 2011, these funds were immediately transferred to money market accounts or investments mandated by the Trust Indenture.

7. Lease Agreement Receivables

Lease agreement receivables represent the obligation of the lease program participants and provide for payment by the participants to the Trust Estate of monies sufficient to pay, when due, the principal and interest on the Bonds and the costs associated with the lease program. All leases are issued as variable rate leases, which may be converted to fixed rate leases through an interest rate exchange agreement (see Note 9). The lease rental payment is computed with respect to variable rate bonds and the interest rate in effect on the first day of each week during the fiscal year, unless the lessee elects to have the interest rate converted to a fixed rate upon the terms and conditions of an interest rate exchange agreement (see Note 9).

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

7. Lease Agreement Receivables, continued

Each Trust Estate can originate leases during a three-year period following the date of issuance of the Bonds. The last date on which leases can be originated and the outstanding lease principal amounts at June 30, 2012 and 2011 are as follows:

	Leases Issued During 3-Year Period Ending	Lease Principal Outstanding as of June 30, 2012	June 30, 2011
2000 Trust Estate	March 2003	\$ 14,186,775	\$ 15,324,318
2002 Trust Estate	April 2005	12,140,339	13,409,666
2002A Trust Estate	October 2005	22,030,925	24,019,722
2004A Trust Estate	June 2007	26,228,295	28,368,692
2006A Trust Estate	May 2009	30,027,504	36,570,706
2008A Trust Estate	July 2011	32,960,090	39,108,668
2008B Trust Estate	December 2011	<u>29,056,967</u>	<u>30,849,164</u>
		<u>\$ 166,630,895</u>	<u>\$ 187,650,936</u>

Future minimum lease rental payments required under the lease agreement receivables at June 30, 2012 are as follows:

	Year Ending June 30						
	2013	2014	2015	2016	2017	Thereafter	Total
2000 Trust Estate	\$ 1,314,070	\$ 1,335,298	\$ 1,379,650	\$ 1,289,109	\$ 1,353,805	\$ 7,514,843	\$ 14,186,775
2002 Trust Estate	1,168,595	1,153,463	1,188,952	1,212,274	592,754	6,824,301	12,140,339
2002A Trust Estate	2,421,209	1,999,693	1,980,963	1,989,676	2,055,072	11,584,312	22,030,925
2004A Trust Estate	1,991,781	1,389,975	1,338,333	1,142,889	845,693	19,519,624	26,228,295
2006A Trust Estate	1,499,154	1,413,381	1,429,554	1,461,266	1,501,042	22,723,107	30,027,504
2008A Trust Estate	4,195,887	1,624,356	1,672,861	1,730,872	1,792,709	21,943,405	32,960,090
2008B Trust Estate	<u>2,094,835</u>	<u>1,661,614</u>	<u>1,716,051</u>	<u>1,772,471</u>	<u>1,808,820</u>	<u>20,003,176</u>	<u>29,056,967</u>
	<u>\$14,685,531</u>	<u>\$10,577,780</u>	<u>\$10,706,364</u>	<u>\$10,598,557</u>	<u>\$ 9,949,895</u>	<u>\$ 110,112,768</u>	<u>\$ 166,630,895</u>

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

7. Lease Agreement Receivables, continued

As of June 30, 2012, lease rental payments associated with 7 leases had not been received as scheduled under the lease agreements and were considered to be past due. The following table lists the number of leases past due for each Trust Estate as of June 30, 2012 and the total investment in past due leases as of June 30, 2012:

Trust Estate	Number	Total Investment
2000 Trust Estate	1	\$ 25,000
2002A Trust Estate	2	2,218
2004A Trust Estate	3	21,585
2008A Trust Estate	1	1,305
	<u>7</u>	<u>\$ 50,108</u>

These past due leases were all paid in July 2012, except for one lease, which was paid in full in February 2013.

8. Bonds Payable

As described in Note 1, the Issuers issued seven variable rate Bonds. Each bond issue was in the amount of \$50,000,000. The Bonds are issuable as fully registered bonds without coupons and will mature on the dates described in Note 1, subject to mandatory and optional redemption prior to maturity (as described below). The Bonds are not general obligations of the Issuers or the Funding Trust but are special and limited obligations payable solely from the Trust Estates.

The Bonds were initially offered as Weekly Rate Bonds. Weekly Rate Bonds can be converted to Adjustable Rate Bonds or Fixed Rate Bonds. Weekly Rate Bonds and Adjustable Rate Bonds are subject to optional redemption on their respective interest payment dates, the first business day of each month for Weekly Rate Bonds and on each bond payment date (see schedule below) or, if not a business day, then the next business day for Adjustable Rate Bonds. Fixed Rate Bonds are subject to optional redemption on any date beginning on the interest payment date, or each bond payment date (see schedule below), which is at least ten years from the fixed rate conversion date.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

8. Bonds Payable, continued

The bond payment dates are as follows for each Trust Estate:

<u>Trust Estate</u>	<u>Bond Payment Date</u>
2000 Trust Estate	September 1 or March 1
2002 Trust Estate	September 1 or March 1
2002A Trust Estate	September 1 or March 1
2004A Trust Estate	September 1 or March 1
2006A Trust Estate	September 1 or March 1
2008A Trust Estate	July 1 or January 1
2008B Trust Estate	December 1 or June 1

Daily Rate Bonds, Weekly Rate Bonds, and Adjustable Rate Bonds are subject to mandatory redemption in part on the first redemption date (see schedule below) succeeding each scheduled payment date for a principal component of a lease rental payment under a variable rate lease in an amount equal to such principal component plus accrued interest, if any. Bonds which have been converted to Fixed Rate Bonds upon closing of a lease are subject to mandatory redemption in part on the first interest payment date for such Bonds succeeding each scheduled payment date for a principal component of a lease rental payment under the correlative lease in an amount equal to such principal component plus accrued interest, if any. The Bonds, other than Fixed Rate Bonds, are subject to extraordinary mandatory redemption at a redemption price equal to the principal amount of the Bonds to be redeemed, plus payment of the interest due thereon, on the first interest payment date for Daily or Weekly Rate Bonds occurring at least thirty days after the transfer of monies from the Project and Debt Service Reserve Accounts due to the failure to originate leases in an aggregate principal amount equal to the amount so transferred.

The redemption dates are as follows for each Trust Estate:

<u>Trust Estate</u>	<u>Redemption Date</u>
2000 Trust Estate	September 1
2002 Trust Estate	September 1
2002A Trust Estate	September 1
2004A Trust Estate	June 1 and December 1
2006A Trust Estate	March 1
2008A Trust Estate	Monthly, 1st business day
2008B Trust Estate	Monthly, 1st business day

When the Daily Rate Bonds, Weekly Rate Bonds and the Adjustable Rate Bonds are redeemed, the Remarketing Agent (see Note 3) uses its best efforts to remarket the Bonds to be purchased on a purchase date described in the Trust Indenture. The Bonds may not be remarketed beyond the final maturity date (see Note 1).

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

8. Bonds Payable, continued

The assets of the Trust Estates are pledged to secure repayment of the Bonds. Repayment of the Bonds is supported by the Credit Facilities described in Note 3.

The bond rate is the minimum rate of interest established weekly by the Remarketing Agent to enable the Bonds to be marketable. This rate is generally based on the SIFMA Municipal Swap Index. During the year ended June 30, 2012, the variable interest rate on the Bonds outstanding ranged from 0.05% to 0.26% for the 2000 Trust Estate and from 0.05% to 0.25% for all other Trust Estates. During the year ended June 30, 2011, the variable interest rate on the Bonds outstanding ranged from 0.08% to 0.36% for the 2000 Trust Estate and from 0.11% to 0.36% for all other Trust Estates.

At June 30, 2012 and 2011, the balances outstanding on the Bonds were as follows:

Trust Estate	June 30, 2012	June 30, 2011
2000 Trust Estate	\$ 19,825,000	\$ 21,665,000
2002 Trust Estate	17,200,000	19,620,000
2002A Trust Estate	27,270,000	30,190,000
2004A Trust Estate	31,580,000	36,935,000
2006A Trust Estate	35,350,000	43,100,000
2008A Trust Estate	38,150,000	46,000,000
2008B Trust Estate	<u>34,445,000</u>	<u>39,815,000</u>
	<u>\$ 203,820,000</u>	<u>\$ 237,325,000</u>

9. Interest Rate Exchange Agreements

The interest rate exchange agreements that the Funding Trust enters into when lessees convert variable rate leases to fixed rate leases are derivative instruments. The Funding Trust utilizes interest rate exchanges to provide fixed rate leases to lessees without bearing interest rate risk (see also Note 7). Under the terms of the agreements, the Funding Trust pays to the exchange counterparty the agreed fixed rate and receives interest based upon an agreed variable indexed rate. These interest rate exchange agreements have been designated by the Funding Trust as fair value hedges of the underlying changes in the fair value of the lease agreement receivables. The net interest payments made (received) under the swap exchanges (settlements) are included as a component of interest expense (income). Cash flows from interest rate exchanges are classified as an operating activity on the combined statements of cash flows.

Under the lease agreement, the lessee is ultimately responsible for any payments associated with the early termination of an interest rate exchange agreement. Changes in the fair value of the exchange instruments result in offsetting changes to the carrying value of the underlying lease instruments with no impact on the combined statements of activities as long as the hedges remain effective.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

9. Interest Rate Exchange Agreements, continued

Under the interest rate exchange agreements, the Funding Trust pays a fixed rate of interest and receives a variable rate tied to the SIFMA Municipal Swap Index. During 2012 and 2011, the Trust Estates made net settlement payments under these exchanges as follows:

Trust Estate	Net Settlement Payments as of	
	June 30, 2012	June 30, 2011
2000 Trust Estate	\$ 247,579	\$ 263,526
2002 Trust Estate	158,596	162,226
2002A Trust Estate	514,145	568,211
2004A Trust Estate	419,689	498,148
2006A Trust Estate	1,376,983	930,085
2008A Trust Estate	571,498	623,187
2008B Trust Estate	<u>211,579</u>	<u>182,437</u>
	<u>\$ 3,500,069</u>	<u>\$ 3,227,820</u>

The number of interest rate exchange agreements and the respective counterparties for each Trust Estate as of June 30, 2012 and 2011 are listed below:

Trust Estate	Counterparty	Number of Agreements as of	
		June 30, 2012	June 30, 2011
2000 Trust Estate	Bank of America Merrill Lynch	3	3
2000 Trust Estate	U.S. Bank	-	2
2002 Trust Estate	U.S. Bank	1	1
2002 Trust Estate	Fifth Third Bank	-	1
2002A Trust Estate	U.S. Bank	7	7
2002A Trust Estate	Fifth Third Bank	3	3
2004A Trust Estate	U.S. Bank	7	10
2006A Trust Estate	U.S. Bank	13	13
2008A Trust Estate	U.S. Bank	6	6
2008B Trust Estate	U.S. Bank	<u>5</u>	<u>5</u>
		<u>45</u>	<u>51</u>

The Funding Trust is exposed to credit losses in the event of non-performance by the exchange counterparty. However, the Funding Trust anticipates that the exchange counterparty will be able to satisfy any obligations under the agreement. The Funding Trust does not obtain collateral or other security to support such derivative financial instruments, however, the Trustee does monitor the credit standing of the exchange counterparty.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

9. Interest Rate Exchange Agreements, continued

The interest rate swap agreements contain provisions that require the Bonds to maintain an investment grade credit rating from each of the major credit rating agencies. If the Bonds were to fall below investment grade, the Funding Trust would be in violation of these provisions, and the counterparty to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on June 30, 2012 and 2011 is \$464,511 and \$320,471, respectively. The Credit Facility serves as collateral for these derivative instruments. The Funding Trust has not posted additional collateral to this counterparty. If the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2012, the Funding Trust would be required to pay \$464,511 from the 2000 Trust Estate for the early termination of the agreements.

The following tables present the combined unrealized gain (loss) and fair value of derivative instruments by major risk type on a gross basis and the corresponding impact on the assets being hedged as of and for the years ended June 30, 2012 and 2011.

Income Statement Classification	Liability Derivatives for Fair Value Hedging Activities					
	Year ended June 30, 2012			Year ended June 30, 2011		
	Swap Interest Expense	Lease Interest Income	Ineffective Swap Realized Gain (Loss)	Swap Interest Income	Lease Interest Income	Ineffective Swap Realized Gain (Loss)
Income from lease agreement receivables	\$ -	\$ 3,500,069	\$ -	\$ -	\$ 3,227,820	\$ -
Interest expense	(3,500,069)	-	6,700	(3,227,820)	-	(6,700)
Balance Sheet Classification	As of June 30, 2012		As of June 30, 2011			
	Class of Derivative	Fair Value	Class of Derivative	Fair Value		
Interest rate exchange	Interest rate contracts	\$(14,470,258)	Interest Rate Contracts	\$ (6,974,147)		
Lease agreement receivables unrealized appreciation (Hedged Asset)	N/A	<u>14,533,531</u>	N/A	<u>7,030,720</u>		
Cumulative realized gain from ineffectiveness	N/A	<u>\$ 63,273</u>	N/A	<u>\$ 56,573</u>		

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

9. Interest Rate Exchange Agreements, continued

Total combined gain (loss) due to hedge ineffectiveness was \$6,700 and \$(6,700) for the years ended June 30, 2012 and 2011, respectively. Accordingly, the accompanying combined statements of financial position as of June 30, 2012 and 2011 reflect unrealized appreciation in the fair value of lease agreement receivables of \$14,533,531 and \$7,030,720, respectively, and interest rate exchange liabilities of \$14,470,258 and \$6,974,147, respectively.

10. Tax Status

All funds are considered to be property of the agencies participating in the lease program. The Funding Trust intends to be an instrument of the participating agencies and will only execute essential government functions. As such, the income of the Trust Estates is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made in the accompanying combined financial statements.

The Bonds are subject to the arbitrage rebate regulations included in the Internal Revenue Code. These regulations require nonexempt arbitrage earnings to be rebated to the United States to prevent a bond issuance from being classified as arbitrage bonds. The regulations include certain exceptions to the rebate payments. Accrued arbitrage rebates for each Trust Estate at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
2000 Trust Estate	\$ -	\$ 15,042
2002 Trust Estate	-	139,715
2006A Trust Estate	8,425	599,153
2008A Trust Estate	<u>203,304</u>	<u>126,828</u>
	\$ <u>211,729</u>	\$ <u>880,738</u>

11. Related Party Transactions

The Trust Estates pay administrative fees to the Program Administrator. During the years ended June 30, 2012 and 2011, administrative fees paid to the Program Administrator included in administrative and trustee fees in the accompanying combined statements of activities were \$428,589 and \$473,695, respectively. At June 30, 2012 and 2011, total administrative fees included in accounts payable were \$8,338 and \$10,254, respectively.

During the year ended June 30, 2010, the 2008A and 2008B Trust Estates entered into lease agreements with the Program Administrator to finance costs to renovate the Program Administrator's office building. The total balance of these lease agreement receivables is \$3,918,722 and \$4,174,627 as of June 30, 2012 and 2011, respectively.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

12. Departure from U.S. Generally Accepted Accounting Principles

The Trust Estates record a participant's share of issuance costs to originate a lease as income in the year the lease is closed. This income is recorded in the accompanying combined statements of activities. A participant's share of issuance costs should be deferred and amortized to income over the life of the lease using the effective interest method in order to conform to GAAP. If the participants' share of issuance costs were deferred, the following accounts would be increased (decreased):

June 30, 2012	Liabilities: Costs of	Net assets, unrestricted	Change in net assets	
			Income from lease issuance costs	Income from lease agreement receivables
2000 Trust Estate	\$ 247,025	\$ (247,025)	\$ -	\$ 30,976
2002 Trust Estate	250,812	(250,812)	-	33,597
2002A Trust Estate	302,194	(302,194)	-	42,965
2004A Trust Estate	531,459	(531,459)	-	55,730
2006A Trust Estate	589,377	(589,377)	-	120,278
2008A Trust Estate	665,804	(665,804)	-	72,364
2008B Trust Estate	<u>631,587</u>	<u>(631,587)</u>	<u>-</u>	<u>76,260</u>
	<u>\$ 3,218,258</u>	<u>\$ (3,218,258)</u>	<u>\$ -</u>	<u>\$ 432,170</u>

June 30, 2011	Liabilities: Costs of	Net assets, unrestricted	Change in net assets	
			Income from lease issuance costs	Income from lease agreement receivables
2000 Trust Estate	\$ 278,001	\$ (278,001)	\$ -	\$ 23,732
2002 Trust Estate	284,409	(284,409)	-	31,475
2002A Trust Estate	345,160	(345,160)	-	39,441
2004A Trust Estate	587,189	(587,189)	-	74,729
2006A Trust Estate	709,665	(709,665)	-	33,585
2008A Trust Estate	738,168	(738,168)	-	59,168
2008B Trust Estate	<u>707,848</u>	<u>(707,848)</u>	<u>(2,677)</u>	<u>40,039</u>
	<u>\$ 3,650,440</u>	<u>\$ (3,650,440)</u>	<u>\$ (2,677)</u>	<u>\$ 302,169</u>

SUPPLEMENTARY INFORMATION

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combining Statement of Financial Position

June 30, 2012

	<u>2000</u>	<u>2002</u>	<u>2002A</u>	<u>2004A</u>	<u>2006A</u>	<u>2008A</u>	<u>2008B</u>	<u>Total</u>
Assets								
Cash and cash equivalents	\$ 132,819	\$ 196,776	\$ 526,399	\$ 149,915	\$ 202,856	\$ 494,792	\$ 784,735	\$ 2,488,292
Certificate of deposit	-	-	-	-	-	-	5,006,089	5,006,089
Repurchase agreements	-	5,000,000	-	-	4,955,000	-	5,646	9,960,646
Investment agreements	5,543,598	-	5,000,000	5,214,098	440,184	5,000,000	-	21,197,880
Accrued investment income receivable	8,346	5,128	5,109	3,149	1	4,425	15,737	41,895
Accrued interest and fees receivable - leases	27,132	14,707	47,375	43,475	79,689	56,250	19,886	288,514
Leases receivable	14,186,775	12,140,339	22,030,925	26,228,295	30,027,504	32,960,090	29,056,967	166,630,895
Lease agreement receivables - unrealized appreciation in fair value	704,086	890,195	1,606,648	2,688,538	5,120,542	2,717,351	806,171	14,533,531
Costs of debt issuance, net	<u>158,907</u>	<u>180,366</u>	<u>203,014</u>	<u>272,727</u>	<u>312,858</u>	<u>324,630</u>	<u>425,174</u>	<u>1,877,676</u>
Total assets	\$ <u>20,761,663</u>	\$ <u>18,427,511</u>	\$ <u>29,419,470</u>	\$ <u>34,600,197</u>	\$ <u>41,138,634</u>	\$ <u>41,557,538</u>	\$ <u>36,120,405</u>	\$ <u>222,025,418</u>
Liabilities and Net Assets								
Liabilities:								
Accounts payable and other accrued liabilities	\$ 25,773	\$ 34,637	\$ 74,729	\$ 128,679	\$ 115,480	\$ 93,191	\$ 126,913	\$ 599,402
Accrued interest payable - bonds	2,780	2,625	4,133	4,778	5,293	5,712	5,207	30,528
Interest rate exchange - liability	704,086	890,195	1,606,648	2,688,538	5,120,542	2,717,351	742,898	14,470,258
Accrued arbitrage rebate	-	-	-	-	8,425	203,304	-	211,729
Bonds payable	<u>19,825,000</u>	<u>17,200,000</u>	<u>27,270,000</u>	<u>31,580,000</u>	<u>35,350,000</u>	<u>38,150,000</u>	<u>34,445,000</u>	<u>203,820,000</u>
Total liabilities	20,557,639	18,127,457	28,955,510	34,401,995	40,599,740	41,169,558	35,320,018	219,131,917
Net assets, unrestricted	<u>204,024</u>	<u>300,054</u>	<u>463,960</u>	<u>198,202</u>	<u>538,894</u>	<u>387,980</u>	<u>800,387</u>	<u>2,893,501</u>
Total liabilities and net assets	\$ <u>20,761,663</u>	\$ <u>18,427,511</u>	\$ <u>29,419,470</u>	\$ <u>34,600,197</u>	\$ <u>41,138,634</u>	\$ <u>41,557,538</u>	\$ <u>36,120,405</u>	\$ <u>222,025,418</u>

See report of independent auditors.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combining Statement of Financial Position

June 30, 2011

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
Assets								
Cash and cash equivalents	\$ 47,682	\$ 1,392,316	\$ 1,464,740	\$ 1,749,338	\$ 1,279,805	\$ 2,234,421	\$ 697,259	\$ 8,865,561
Certificate of deposit	-	-	-	-	-	-	5,005,096	5,005,096
Repurchase agreements	-	5,000,000	-	-	4,955,000	-	3,645,263	13,600,263
Investment agreements	6,381,525	-	5,000,000	6,922,195	1,087,501	5,000,000	-	24,391,221
Accrued investment income receivable	5,268	4,789	5,123	3,249	2	4,063	15,737	38,231
Accrued interest and fees receivable - leases	29,023	15,275	33,384	90,119	135,466	100,998	70,743	475,008
Leases receivable	15,324,318	13,409,666	24,019,722	28,368,692	36,570,706	39,108,668	30,849,164	187,650,936
Lease agreement receivables - unrealized appreciation in fair value	549,804	415,806	1,336,061	1,256,151	2,124,306	1,034,404	314,188	7,030,720
Prepays and other current assets	-	-	-	-	2,664	-	-	2,664
Costs of debt issuance, net	<u>179,964</u>	<u>195,132</u>	<u>226,728</u>	<u>295,055</u>	<u>341,971</u>	<u>381,362</u>	<u>448,888</u>	<u>2,069,100</u>
Total assets	<u>\$ 22,517,584</u>	<u>\$ 20,432,984</u>	<u>\$ 32,085,758</u>	<u>\$ 38,684,799</u>	<u>\$ 46,497,421</u>	<u>\$ 47,863,916</u>	<u>\$ 41,046,338</u>	<u>\$ 249,128,800</u>
Liabilities and Net Assets								
Liabilities:								
Accounts payable and other accrued liabilities	\$ 82,667	\$ 52,022	\$ 78,842	\$ 139,610	\$ 101,756	\$ 169,816	\$ 157,417	\$ 782,130
Accrued interest payable - bonds	2,535	2,060	3,143	3,835	4,416	4,713	4,130	24,832
Interest rate exchange - liability	549,804	415,806	1,336,061	1,256,151	2,124,306	1,034,404	257,615	6,974,147
Accrued arbitrage rebate	15,042	139,715	-	-	599,153	126,828	-	880,738
Bonds payable	<u>21,665,000</u>	<u>19,620,000</u>	<u>30,190,000</u>	<u>36,935,000</u>	<u>43,100,000</u>	<u>46,000,000</u>	<u>39,815,000</u>	<u>237,325,000</u>
Total liabilities	22,315,048	20,229,603	31,608,046	38,334,596	45,929,631	47,335,761	40,234,162	245,986,847
Net assets, unrestricted	<u>202,536</u>	<u>203,381</u>	<u>477,712</u>	<u>350,203</u>	<u>567,790</u>	<u>528,155</u>	<u>812,176</u>	<u>3,141,953</u>
Total liabilities and net assets	<u>\$ 22,517,584</u>	<u>\$ 20,432,984</u>	<u>\$ 32,085,758</u>	<u>\$ 38,684,799</u>	<u>\$ 46,497,421</u>	<u>\$ 47,863,916</u>	<u>\$ 41,046,338</u>	<u>\$ 249,128,800</u>

See report of independent auditors.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combining Statement of Activities

Year ended June 30, 2012

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
Revenues:								
Income from lease agreement receivables	\$ 488,920	\$ 356,902	\$ 836,275	\$ 845,429	\$ 1,278,198	\$ 1,119,541	\$ 847,568	\$ 5,772,833
Investment interest income and other income	57,023	66,135	59,803	33,787	49,055	4,508	67,158	337,469
Arbitrage credit	15,042	89,606	-	-	590,728	-	-	695,376
Gain on swap effectiveness	-	-	-	-	-	-	6,700	6,700
Total revenues	560,985	512,643	896,078	879,216	1,917,981	1,124,049	921,426	6,812,378
Expenses:								
Administrative and trustee fees	66,440	31,094	68,901	82,067	102,132	91,178	74,098	515,910
Letter of credit fees	151,244	146,168	214,972	385,767	209,126	347,940	442,441	1,897,658
Remarketing fees	17,182	18,216	29,946	29,024	29,502	31,583	27,477	182,930
Professional and other fees	21,750	21,000	18,950	13,000	45,679	28,411	49,784	198,574
Arbitrage rebate	-	-	-	-	-	76,476	-	76,476
Bond interest expense	34,245	26,130	39,202	79,342	154,342	60,406	104,122	497,789
Swap interest expense	247,579	158,596	514,145	419,689	1,376,983	571,498	211,579	3,500,069
Amortization expense	21,057	14,766	23,714	22,328	29,113	56,732	23,714	191,424
Total expenses	559,497	415,970	909,830	1,031,217	1,946,877	1,264,224	933,215	7,060,830
Changes in net assets	1,488	96,673	(13,752)	(152,001)	(28,896)	(140,175)	(11,789)	(248,452)
Net assets, beginning of year	202,536	203,381	477,712	350,203	567,790	528,155	812,176	3,141,953
Net assets, end of year	\$ 204,024	\$ 300,054	\$ 463,960	\$ 198,202	\$ 538,894	\$ 387,980	\$ 800,387	\$ 2,893,501

See report of independent auditors.

KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combining Statement of Activities

Year ended June 30, 2011

	<u>2000</u>	<u>2002</u>	<u>2002A</u>	<u>2004A</u>	<u>2006A</u>	<u>2008A</u>	<u>2008B</u>	<u>Total</u>
Revenues:								
Income from lease agreement receivables	\$ 535,928	\$ 396,105	\$ 900,011	\$ 986,803	\$ 1,451,113	\$ 1,259,585	\$ 892,667	\$ 6,422,212
Income from lessee issuance costs	-	-	-	-	-	-	2,677	2,677
Investment interest income and other income	<u>73,904</u>	<u>65,016</u>	<u>66,507</u>	<u>41,052</u>	<u>64,357</u>	<u>55,823</u>	<u>68,244</u>	<u>434,903</u>
Total revenues	609,832	461,121	966,518	1,027,855	1,515,470	1,315,408	963,588	6,859,792
Expenses:								
Administrative and trustee fees	54,917	197,250	66,995	103,207	178,081	120,512	101,228	822,190
Letter of credit fees	156,253	150,074	178,781	285,708	272,177	381,022	479,897	1,903,912
Remarketing fees	17,438	18,087	30,902	27,539	44,314	46,776	43,036	228,092
Professional and other fees	21,192	15,675	9,925	(5,075)	16,175	10,425	13,407	81,724
Arbitrage rebate	14,344	44,500	-	-	(36,070)	4,995	(15,995)	11,774
Bond interest expense	54,979	51,123	78,852	99,968	113,392	118,295	115,168	631,777
Swap interest expense	263,526	162,226	568,211	498,148	930,085	623,187	182,437	3,227,820
Amortization expense	20,423	22,163	27,576	25,084	32,495	44,561	39,387	211,689
Loss on swap ineffectiveness	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,700</u>	<u>6,700</u>
Total expenses	<u>603,072</u>	<u>661,098</u>	<u>961,242</u>	<u>1,034,579</u>	<u>1,550,649</u>	<u>1,349,773</u>	<u>965,265</u>	<u>7,125,678</u>
Changes in net assets	6,760	(199,977)	5,276	(6,724)	(35,179)	(34,365)	(1,677)	(265,886)
Net assets, beginning of year	<u>195,776</u>	<u>403,358</u>	<u>472,436</u>	<u>356,927</u>	<u>602,969</u>	<u>562,520</u>	<u>813,853</u>	<u>3,407,839</u>
Net assets, end of year	<u>\$ 202,536</u>	<u>\$ 203,381</u>	<u>\$ 477,712</u>	<u>\$ 350,203</u>	<u>\$ 567,790</u>	<u>\$ 528,155</u>	<u>\$ 812,176</u>	<u>\$ 3,141,953</u>

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KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combining Statement of Cash Flows

Year ended June 30, 2012

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
Cash flows from operating activities:								
Change in net assets	\$ 1,488	\$ 96,673	\$ (13,752)	\$ (152,001)	\$ (28,896)	\$ (140,175)	\$ (11,789)	\$ (248,452)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:								
Amortization of costs of debt issuance	21,057	14,766	23,714	22,328	29,113	56,732	23,714	191,424
Gain on hedge effectiveness	-	-	-	-	-	-	(6,700)	(6,700)
Increase (decrease) in cash due to changes in:								
Accrued investment income receivable	(3,078)	(339)	14	100	1	(362)	-	(3,664)
Accrued interest and fees receivable - leases	1,891	568	(13,991)	46,644	55,777	44,748	50,857	186,494
Prepays and other current assets	-	-	-	-	2,664	-	-	2,664
Accounts payable and other accrued expenses	(56,894)	(17,385)	(4,113)	(10,931)	13,724	(76,625)	(30,504)	(182,728)
Accrued interest payable - bonds	245	565	990	943	877	999	1,077	5,696
Accrued arbitrage rebate	(15,042)	(139,715)	-	-	(590,728)	76,476	-	(669,009)
Net cash (used in) provided by operating activities	(50,333)	(44,867)	(7,138)	(92,917)	(517,468)	(38,207)	26,655	(724,275)
Cash flows from investing activities:								
Proceeds from lease agreements	1,137,543	1,269,327	1,988,797	2,140,397	6,543,202	6,148,578	1,792,197	21,020,041
Net proceeds from repurchase and investment agreements and certificates of deposit	837,927	-	-	1,708,097	647,317	-	3,638,624	6,831,965
Net cash provided by investing activities	1,975,470	1,269,327	1,988,797	3,848,494	7,190,519	6,148,578	5,430,821	27,852,006
Cash flows from financing activities:								
Principal payments on bonds	(1,840,000)	(2,420,000)	(2,920,000)	(5,355,000)	(7,750,000)	(7,850,000)	(5,370,000)	(33,505,000)
Net cash used in financing activities	(1,840,000)	(2,420,000)	(2,920,000)	(5,355,000)	(7,750,000)	(7,850,000)	(5,370,000)	(33,505,000)
Net (decrease) increase in cash and cash equivalents	85,137	(1,195,540)	(938,341)	(1,599,423)	(1,076,949)	(1,739,629)	87,476	(6,377,269)
Cash and cash equivalents, beginning of year	47,682	1,392,316	1,464,740	1,749,338	1,279,805	2,234,421	697,259	8,865,561
Cash and cash equivalents, end of year	\$ 132,819	\$ 196,776	\$ 526,399	\$ 149,915	\$ 202,856	\$ 494,792	\$ 784,735	\$ 2,488,292

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KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Combining Statement of Cash Flows

Year ended June 30, 2011

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
Cash flows from operating activities:								
Change in net assets	\$ 6,760	\$ (199,977)	\$ 5,276	\$ (6,724)	\$ (35,179)	\$ (34,365)	\$ (1,677)	\$ (265,886)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:								
Amortization of costs of debt issuance	20,423	22,163	27,576	25,084	32,495	44,561	39,387	211,689
Loss on hedge effectiveness	-	-	-	-	-	-	6,700	6,700
Increase (decrease) in cash due to changes in:								
Accrued investment income receivable	5,543	1,033	685	(61)	1	682	(41)	7,842
Accrued interest and fees receivable - leases	23,087	7,973	5,616	(3,733)	51,057	3,746	6,760	94,506
Accounts payable and other accrued expenses	(5,671)	(4,353)	(14,048)	(12,840)	(106,192)	(44,067)	(35,788)	(222,959)
Lease rebate payable	(216,685)	(149,900)	-	-	-	-	-	(366,585)
Accrued interest payable - bonds	(3,465)	(3,061)	(4,690)	(5,888)	(6,386)	(6,775)	(6,996)	(37,261)
Accrued arbitrage rebate	(224,737)	44,500	-	-	(36,070)	4,995	(15,995)	(227,307)
Net cash (used in) provided by operating activities	(394,745)	(281,622)	20,415	(4,162)	(100,274)	(31,223)	(7,650)	(799,261)
Cash flows from investing activities:								
Proceeds from lease agreements	1,107,431	1,320,637	2,211,422	4,584,350	2,809,288	3,365,627	7,361,333	22,760,088
Lease agreements executed	-	-	-	-	-	-	(150,376)	(150,376)
Net proceeds from (investment in) repurchase and investment agreements and certificates of deposit	308,038	-	-	(1,542,608)	(169,903)	12,939	189,129	(1,202,405)
Net cash provided by investing activities	1,415,469	1,320,637	2,211,422	3,041,742	2,639,385	3,378,566	7,400,086	21,407,307
Cash flows from financing activities:								
Principal payments on bonds	(1,150,000)	(1,620,000)	(2,300,000)	(1,525,000)	(1,705,000)	(1,650,000)	(8,360,000)	(18,310,000)
Net cash used in financing activities	(1,150,000)	(1,620,000)	(2,300,000)	(1,525,000)	(1,705,000)	(1,650,000)	(8,360,000)	(18,310,000)
Net (decrease) increase in cash and cash equivalents	(129,276)	(580,985)	(68,163)	1,512,580	834,111	1,697,343	(967,564)	2,298,046
Cash and cash equivalents, beginning of year	176,958	1,973,301	1,532,903	236,758	445,694	537,078	1,664,823	6,567,515
Cash and cash equivalents, end of year	\$ 47,682	\$ 1,392,316	\$ 1,464,740	\$ 1,749,338	\$ 1,279,805	\$ 2,234,421	\$ 697,259	\$ 8,865,561

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