

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

*Years Ended June 30, 2014 and 2013  
with Report of Independent Auditors*

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## **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 statements of financial position as of June 30, 2014 and 2013, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the 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 audits. We conducted our audits 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 from 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

Board of Trustees  
Kentucky League of Cities Funding Trust  
Report of Independent Auditors

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 audit opinion.

### Opinion

In our opinion, 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information on pages 33 - 38 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 audits 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, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

*Dean Dorton Allen Ford, PLLC*

DEAN DORTON ALLEN FORD, PLLC

January 7, 2015  
Lexington, Kentucky



# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Combined Statements of Financial Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,982,997	\$ 2,712,296
Certificates of deposit	5,000,000	5,000,000
Repurchase agreements	9,955,000	9,955,000
Investment agreements	22,865,130	21,437,879
Accrued investment income receivable	24,766	36,659
Accrued interest and fees receivable - leases	238,071	255,167
Lease agreement receivables	130,429,291	152,852,655
Lease agreement receivables - unrealized appreciation in fair value	8,718,257	9,514,953
Costs of debt issuance, net	<u>1,606,913</u>	<u>1,733,118</u>
Total assets	<u>\$ 181,820,425</u>	<u>\$ 203,497,727</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 533,065	\$ 568,875
Accrued interest payable - bonds	32,038	26,490
Interest rate exchange - liability	8,654,984	9,451,680
Accrued arbitrage rebate	272,377	261,895
Deferred issuance costs	2,771,191	3,008,025
Bonds payable	<u>169,490,000</u>	<u>189,995,000</u>
Total liabilities	181,753,655	203,311,965
Net assets, unrestricted	<u>66,770</u>	<u>185,762</u>
Total liabilities and net assets	<u>\$ 181,820,425</u>	<u>\$ 203,497,727</u>

See accompanying notes.

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Combined Statements of Activities

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Income from lease agreement receivables	\$ 4,976,497	\$ 5,369,984
Amortization of deferred issuance costs	236,834	210,233
Investment and other income	248,416	315,085
Arbitrage credit	<u>-</u>	<u>2,247</u>
Total revenues	5,461,747	5,897,549
Expenses:		
Administrative and trustee fees	433,055	494,074
Letter of credit fees	1,377,381	1,298,085
Remarketing fees	169,130	163,754
Professional and other fees	57,383	116,304
Arbitrage rebate	220,143	52,414
Bond interest expense	124,034	301,889
Swap interest expense	3,073,408	2,815,952
Amortization expense	<u>126,205</u>	<u>144,558</u>
Total expenses	<u>5,580,739</u>	<u>5,387,030</u>
Change in net assets	(118,992)	510,519
Net assets (deficit), beginning of year	<u>185,762</u>	<u>(324,757)</u>
Net assets, end of year	\$ <u>66,770</u>	\$ <u>185,762</u>

See accompanying notes.

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Combined Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (118,992)	\$ 510,519
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Amortization of cost of debt issuance	126,205	144,558
Amortization of deferred issuance costs	(236,834)	(210,233)
Increase (decrease) in cash due to changes in:		
Accrued investment income receivable	11,893	5,236
Accrued interest and fees receivable - leases	17,096	33,346
Accounts payable and other accrued expenses	(35,810)	(30,526)
Accrued interest payable - bonds	5,548	(4,038)
Accrued arbitrage rebate	<u>10,482</u>	<u>50,166</u>
Net cash (used in) provided by operating activities	(220,412)	499,028
<b>Cash flows from investing activities:</b>		
Proceeds from lease agreements	22,423,364	13,778,240
Net investment in repurchase and investment agreements and certificates of deposit	<u>(1,427,251)</u>	<u>(228,264)</u>
Net cash provided by investing activities	20,996,113	13,549,976
<b>Cash flows from financing activities:</b>		
Principal payments on bonds	<u>(20,505,000)</u>	<u>(13,825,000)</u>
Net cash used in financing activities	<u>(20,505,000)</u>	<u>(13,825,000)</u>
Net increase in cash and cash equivalents	270,701	224,004
Cash and cash equivalents, beginning of year	<u>2,712,296</u>	<u>2,488,292</u>
Cash and cash equivalents, end of year	<u>\$ 2,982,997</u>	<u>\$ 2,712,296</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for:		
Interest on bonds	\$ 118,486	\$ 305,927
Interest on interest rate exchanges	3,073,408	2,815,952
Noncash investing transactions:		
Change in the fair value of lease agreement receivables	\$ (796,696)	\$ (5,018,578)
Change in the fair value of interest rate exchanges	796,696	5,018,578

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	December 2008	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, 2014 and 2013 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, 2014 and 2013, respectively, there were a total of 8 and 10 leases past due, totaling approximately \$34,000 and \$1,100,000. 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 agreement 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, 2014 and 2013 are as follows:

	2014	2013
2000 Trust Estate	\$ 14,051	\$ 12,508
2002 Trust Estate	14,062	15,224
2002A Trust Estate	(1,386)	30,844
2004A Trust Estate	19,649	20,789
2006A Trust Estate	20,892	21,056
2008A Trust Estate	30,267	17,519
2008B Trust Estate	28,670	26,618
	<u>\$ 126,205</u>	<u>\$ 144,558</u>

Amortization is expected to be approximately as follows for the years ended June 30, 2015 through 2019:

	2015	2016	2017	2018	2019
2000 Trust Estate	\$ 9,045	\$ 11,452	\$ 10,693	\$ 9,934	\$ 9,174
2002 Trust Estate	12,169	12,634	11,896	11,158	10,419
2002A Trust Estate	5,279	15,310	14,464	13,618	12,771
2004A Trust Estate	20,583	18,167	17,217	16,266	15,314
2006A Trust Estate	14,549	18,618	17,738	16,856	15,974
2008A Trust Estate	26,394	25,390	24,279	23,168	22,055
2008B Trust Estate	26,159	21,755	22,752	21,729	20,704
	<u>\$ 114,178</u>	<u>\$ 123,326</u>	<u>\$ 119,039</u>	<u>\$ 112,729</u>	<u>\$ 106,411</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 January 7, 2015, 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

In addition, the Program Administrator bills the Trust Estate an administration fee for providing these services. The administration fee is equal to .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'



# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Notes to the Combined Financial Statements, continued

### 3. Contractual Agreements, continued

#### Administrative Services, continued

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 Indentures, 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 Credit Facilities, 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, 2014 and 2013 are listed below.

Trust Estate	Original Maturity Date	Extended Maturity Date	Amount Available as of	
			June 30, 2014	June 30, 2013
2000 Trust Estate	March 2003	April 2015	\$ 14,557,227	\$ 18,728,033
2002 Trust Estate	April 2005	April 2015	15,059,551	16,226,564
2002A Trust Estate	October 2005	October 2015	23,599,047	25,628,636
2004A Trust Estate	June 2007	April 2015	29,109,514	30,572,329
2006A Trust Estate	March 2009	April 2015	30,177,520	34,267,329
2008A Trust Estate	July 2011	July 2015	28,178,171	34,348,315
2008B Trust Estate	February 2010	April 2015	31,103,453	32,793,086
			<u>\$ 171,784,483</u>	<u>\$ 192,564,292</u>

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:

## KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

### Notes to the Combined Financial Statements, continued

#### 3. Contractual Agreements, continued

##### Credit Facility, continued

##### 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. The extended expiration date for the letters of credit for the 2000 Trust Estate, 2002 Trust Estate, 2004A Trust Estate, and 2006A Trust Estate is April 15, 2015. The extended expiration date for the letter of credit for the 2002A Trust Estate is October 15, 2015.

##### 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. The extended expiration date for the letter of credit for the 2002A Trust Estate is July 15, 2015.



## 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 extended expiration date for the letter of credit for the 2002A Trust Estate is April 15, 2015.

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.

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:

## KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

### Notes to the Combined Financial Statements, continued

#### 3. Contractual Agreements, continued

##### Bond Remarketing, continued

<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 the Remarketing Agent 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 Indentures. Cede & Co. receives funds from the Trustee as well as from draws on the Credit Facilities in payment of the Trust Estate's principal and interest obligations and disburses such funds to the participants, as defined in Trust Indentures, 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.

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:



## KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

### Notes to the Combined Financial Statements, continued

#### 4. Fair Value of Financial Instruments, continued

- 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:

##### Certificates of Deposit

Certificates of deposit are highly liquid investments with an original maturity date of greater than three months. Certificates of deposit are 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 Trust Estates' combined assets and liabilities measured at fair value as of June 30, 2014 and 2013.

	<u>Level 2</u>	
	<u>2014</u>	<u>2013</u>
Assets:		
Certificates of deposit	\$ 5,000,000	\$ 5,000,000
Repurchase agreements	9,955,000	9,955,000
Investment agreements	<u>22,865,130</u>	<u>21,437,879</u>
	<u>\$ 37,820,130</u>	<u>\$ 36,392,879</u>
Liabilities:		
Interest rate exchanges	<u>\$ 8,654,984</u>	<u>\$ 9,451,680</u>

## KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

### Notes to the Combined Financial Statements, continued

#### 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).

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 \$17,634,000 and \$18,443,000 as of June 30, 2014 and 2013, respectively, representing 14% and 12% of total lease agreement receivables at each year end. Lease agreement receivables from three additional lessees represent 6%, 7%, and 9% and 9%, 6%, and 8% of total lease agreement receivables as of June 30, 2014 and 2013, respectively.



## KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

### Notes to the Combined Financial Statements, continued

#### 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:

##### 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:

	Project Account	Expense Account	Revenue Account	Debt Service Reserve Account	Total
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.



## KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

### Notes to the Combined Financial Statements, continued

#### 6. Trust Estate Accounts, continued

##### 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.

##### 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.

##### 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.

##### 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 the Credit Facility Provider for such payment).

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Notes to the Combined Financial Statements, continued

### 6. Trust Estate Accounts, continued

#### 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.

The accounts of each Trust Estate at June 30, 2014 are summarized as follows:

#### 2000 Trust Estate

	<u>Cash and Cash Equivalents</u>	<u>Investment Agreements</u>	<u>Total</u>
Redemption Account	\$ 37,378	\$ 1,157,218	\$ 1,194,596
Revenue Account	12,880	514,779	527,659
Debt Service Reserve Account	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 50,258</u>	<u>\$ 6,671,997</u>	<u>\$ 6,722,255</u>

#### 2002 Trust Estate

	<u>Cash and Cash Equivalents</u>	<u>Repurchase Agreements</u>	<u>Total</u>
Redemption Account	\$ 139,143	\$ -	\$ 139,143
Revenue Account	53,264	-	53,264
Debt Service Reserve Account	<u>9,189</u>	<u>5,000,000</u>	<u>5,009,189</u>
	<u>\$ 201,596</u>	<u>\$ 5,000,000</u>	<u>\$ 5,201,596</u>

#### 2002A Trust Estate

	<u>Cash and Cash Equivalents</u>	<u>Investment Agreements</u>	<u>Total</u>
Redemption Account	\$ 670,089	\$ -	\$ 670,089
Revenue Account	263,307	-	263,307
Debt Service Reserve Account	<u>9,250</u>	<u>5,000,000</u>	<u>5,009,250</u>
	<u>\$ 942,646</u>	<u>\$ 5,000,000</u>	<u>\$ 5,942,646</u>

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Notes to the Combined Financial Statements, continued

### 6. Trust Estate Accounts, continued

#### 2004A Trust Estate

	Cash and Cash Equivalents	Investment Agreements	Total
Redemption Account	\$ 646,691	\$ 166,329	\$ 813,020
Revenue Account	45,280	224,737	270,017
Debt Service Reserve Account	-	5,000,000	5,000,000
	<u>\$ 691,971</u>	<u>\$ 5,391,066</u>	<u>\$ 6,083,037</u>

#### 2006A Trust Estate

	Cash and Cash Equivalents	Repurchase Agreements	Investment Agreements	Total
Redemption Account	\$ -	\$ -	\$ 331,156	\$ 331,156
Revenue Account	5,542	-	470,911	476,453
Debt Service Reserve Account	-	4,955,000	-	4,955,000
	<u>\$ 5,542</u>	<u>\$ 4,955,000</u>	<u>\$ 802,067</u>	<u>\$ 5,762,609</u>

#### 2008A Trust Estate

	Cash and Cash Equivalents	Investment Agreements	Total
Bond Proceeds Account	\$ (10,267)	\$ -	\$ (10,267)
Redemption Account	264,231	-	264,231
Revenue Account	58,229	-	58,229
Debt Service Reserve Account	-	5,000,000	5,000,000
	<u>\$ 312,193</u>	<u>\$ 5,000,000</u>	<u>\$ 5,312,193</u>

#### 2008B Trust Estate

	Cash and Cash Equivalents	Certificates of Deposit	Total
Redemption Account	\$ 288,286	\$ -	\$ 288,286
Revenue Account	490,505	-	490,505
Debt Service Reserve Account	-	5,000,000	5,000,000
	<u>\$ 778,791</u>	<u>\$ 5,000,000</u>	<u>\$ 5,778,791</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	Certificates of Deposit	Repurchase Agreements	Investment Agreements	Total
Bond Proceeds Account	\$ (10,267)	\$ -	\$ -	\$ -	\$ (10,267)
Redemption Account	2,045,818	-	-	1,654,703	3,700,521
Revenue Account	929,007	-	-	1,210,427	2,139,434
Debt Service Reserve Account	<u>18,439</u>	<u>5,000,000</u>	<u>9,955,000</u>	<u>20,000,000</u>	<u>34,973,439</u>
	<u>\$ 2,982,997</u>	<u>\$ 5,000,000</u>	<u>\$ 9,955,000</u>	<u>\$ 22,865,130</u>	<u>\$ 40,803,127</u>

The accounts of each Trust Estate at June 30, 2013 are summarized as follows:

#### 2000 Trust Estate

	Cash and Cash Equivalents	Investment Agreements	Total
Redemption Account	\$ 36,512	\$ 257,783	\$ 294,295
Revenue Account	12,706	463,533	476,239
Debt Service Reserve Account	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 49,218</u>	<u>\$ 5,721,316</u>	<u>\$ 5,770,534</u>

#### 2002 Trust Estate

	Cash and Cash Equivalents	Repurchase Agreements	Total
Redemption Account	\$ 135,644	\$ -	\$ 135,644
Revenue Account	37,481	-	37,481
Debt Service Reserve Account	1,062	5,000,000	5,001,062
Rebate Account	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 174,187</u>	<u>\$ 5,000,000</u>	<u>\$ 5,174,187</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

	Cash and Cash Equivalents	Investment Agreements	Total
Redemption Account	\$ 272,697	\$ -	\$ 272,697
Revenue Account	258,490	-	258,490
Debt Service Reserve Account	<u>1,019</u>	<u>5,000,000</u>	<u>5,001,019</u>
	<u>\$ 532,206</u>	<u>\$ 5,000,000</u>	<u>\$ 5,532,206</u>

#### 2004A Trust Estate

	Cash and Cash Equivalents	Investment Agreements	Total
Redemption Account	\$ 83,318	\$ 192,295	\$ 275,613
Revenue Account	46,177	206,148	252,325
Debt Service Reserve Account	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 129,495</u>	<u>\$ 5,398,443</u>	<u>\$ 5,527,938</u>

#### 2006A Trust Estate

	Cash and Cash Equivalents	Repurchase Agreements	Investment Agreements	Total
Redemption Account	\$ 237,656	\$ -	\$ 987	\$ 238,643
Revenue Account	261,617	-	317,133	578,750
Debt Service Reserve Account	<u>-</u>	<u>4,955,000</u>	<u>-</u>	<u>4,955,000</u>
	<u>\$ 499,273</u>	<u>\$ 4,955,000</u>	<u>\$ 318,120</u>	<u>\$ 5,772,393</u>

#### 2008A Trust Estate

	Cash and Cash Equivalents	Investment Agreements	Total
Redemption Account	\$ 296,696	\$ -	\$ 296,696
Revenue Account	283,486	-	283,486
Debt Service Reserve Account	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 580,182</u>	<u>\$ 5,000,000</u>	<u>\$ 5,580,182</u>

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Notes to the Combined Financial Statements, continued

### 6. Trust Estate Accounts, continued

#### 2008B Trust Estate

	Cash and Cash Equivalents	Certificates of Deposit	Total
Redemption Account	\$ 268,410	\$ -	\$ 268,410
Revenue Account	479,325	-	479,325
Debt Service Reserve Account	-	5,000,000	5,000,000
	<u>\$ 747,735</u>	<u>\$ 5,000,000</u>	<u>\$ 5,747,735</u>

#### Total Combined Balances

	Cash and Cash Equivalents	Certificates of Deposit	Repurchase Agreements	Investment Agreements	Total
Redemption Account	\$ 1,330,933	\$ -	\$ -	\$ 451,065	\$ 1,781,998
Revenue Account	1,379,282	-	-	986,814	2,366,096
Debt Service Reserve Account	<u>2,081</u>	<u>5,000,000</u>	<u>9,955,000</u>	<u>20,000,000</u>	<u>34,957,081</u>
	<u>\$ 2,712,296</u>	<u>\$ 5,000,000</u>	<u>\$ 9,955,000</u>	<u>\$ 21,437,879</u>	<u>\$ 39,105,175</u>

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, 2014 and 2013, 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, 2014	June 30, 2013	
2002 Trust Estate	Bayerische Hypo-Und Vereinsbank			
	Aegon	\$ 5,000,000	\$ 5,000,000	1%
2006A Trust Estate	Hypo Public Finance Bank	<u>4,955,000</u>	<u>4,955,000</u>	1.22%
		<u>\$ 9,955,000</u>	<u>\$ 9,955,000</u>	



# 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, 2014 and 2013, 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, 2014	June 30, 2013	
2000 Trust Estate	Societe Generale, New York Branch	\$ 6,671,997	\$ 5,721,316	0.85%
2002A Trust Estate	Societe Generale, New York Branch	5,000,000	5,000,000	0.40%
2004A Trust Estate	FSA Capital Management	5,391,066	5,398,443	.44* - .49**%
2006A Trust Estate	RaboBank International	802,067	318,120	0.61%
2008A Trust Estate	Royal Bank of Canada	<u>5,000,000</u>	<u>5,000,000</u>	0.86%
		<u>\$ 22,865,130</u>	<u>\$ 21,437,879</u>	

\* - Rate of return on Redemption and Revenue Accounts

\*\* - Rate of return on Debt Service Reserve Accounts

As of June 30, 2014 and 2013, 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, 2014	June 30, 2013
2000 Trust Estate	First American Gov't Obligation Fund	\$ 50,258	\$ 49,218
2002 Trust Estate	Huntington Protected Deposit Account	201,596	174,187
2002A Trust Estate	Huntington Protected Deposit Account	942,646	532,206
2004A Trust Estate	First American Gov't Obligation Fund	691,971	129,495
2006A Trust Estate	Fidelity Institutional Government Fund	5,542	499,273
2008A Trust Estate	Fidelity Institutional Government Fund	312,193	580,182
2008B Trust Estate	First American Gov't Obligation Fund	<u>778,791</u>	<u>747,735</u>
		<u>\$ 2,982,997</u>	<u>\$ 2,712,296</u>

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Notes to the Combined Financial Statements, continued

### 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).

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, 2014 and 2013 are as follows:

	Leases Issued During 3-Year Period Ending	Lease Principal Outstanding as of	
		June 30, 2014	June 30, 2013
2000 Trust Estate	March 2003	\$ 7,847,407	\$ 12,857,706
2002 Trust Estate	April 2005	9,818,280	10,971,743
2002A Trust Estate	October 2005	17,606,515	20,003,832
2004A Trust Estate	June 2007	22,797,610	24,780,017
2006A Trust Estate	May 2009	24,398,013	28,530,527
2008A Trust Estate	July 2011	22,660,947	28,723,436
2008B Trust Estate	December 2011	<u>25,300,519</u>	<u>26,985,394</u>
		<u>\$ 130,429,291</u>	<u>\$ 152,852,655</u>

Future minimum lease payments required under the lease agreement receivables at June 30, 2014 are as follows:

	Year Ending June 30						
	2015	2016	2017	2018	2019	Thereafter	Total
2000 Trust Estate	\$ 939,650	\$ 829,109	\$ 873,805	\$ 871,658	\$ 868,079	\$ 3,465,106	\$ 7,847,407
2002 Trust Estate	1,188,952	1,212,274	592,754	615,057	624,619	5,584,624	9,818,280
2002A Trust Estate	1,980,963	1,989,676	2,055,072	2,131,929	1,722,075	7,726,800	17,606,515
2004A Trust Estate	1,315,641	1,119,238	843,673	800,398	894,394	17,824,266	22,797,610
2006A Trust Estate	1,306,299	1,324,795	1,351,100	1,053,439	946,476	18,415,904	24,398,013
2008A Trust Estate	4,578,280	1,335,325	1,393,412	1,443,407	1,383,506	12,527,017	22,660,947
2008B Trust Estate	<u>1,716,051</u>	<u>1,772,471</u>	<u>1,808,820</u>	<u>1,644,006</u>	<u>1,426,213</u>	<u>16,932,958</u>	<u>25,300,519</u>
	<u>\$13,025,836</u>	<u>\$ 9,582,888</u>	<u>\$ 8,918,636</u>	<u>\$ 8,559,894</u>	<u>\$ 7,865,362</u>	<u>\$ 82,476,675</u>	<u>\$ 130,429,291</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, 2014, lease rental payments associated with 8 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, 2014 and the total investment in past due leases as of June 30, 2014:

Trust Estate	Number	Total Investment
2000 Trust Estate	1	\$ 4,229
2004A Trust Estate	4	25,658
2006A Trust Estate	1	2,732
2008A Trust Estate	1	305
2008B Trust Estate	1	1,160
	<u>8</u>	<u>\$ 34,084</u>

These past due leases were all paid in July 2014.

### 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	1st Wednesday of September
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, 2014, the variable interest rate on the Bonds outstanding ranged from .03% to .13%. During the year ended June 30, 2013, the variable interest rate on the Bonds outstanding ranged from .05% to .24% for the 2000 Trust Estate and from .06% to .25% for all other Trust Estates.

At June 30, 2014 and 2013, the balances outstanding on the Bonds were as follows:

Trust Estate	June 30, 2014	June 30, 2013
2000 Trust Estate	\$ 14,345,000	\$ 18,455,000
2002 Trust Estate	14,840,000	15,990,000
2002A Trust Estate	23,255,000	25,255,000
2004A Trust Estate	28,755,000	30,200,000
2006A Trust Estate	29,810,000	33,850,000
2008A Trust Estate	27,835,000	33,930,000
2008B Trust Estate	<u>30,650,000</u>	<u>32,315,000</u>
	<u>\$ 169,490,000</u>	<u>\$ 189,995,000</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 2014 and 2013, the Trust Estates made net settlement payments under these exchanges as follows:

Trust Estate	Net Settlement Payments as of June 30,	
	2014	2013
2000 Trust Estate	\$ 332,623	\$ 42,875
2002 Trust Estate	148,174	149,778
2002A Trust Estate	446,106	492,079
2004A Trust Estate	459,591	466,694
2006A Trust Estate	956,561	890,852
2008A Trust Estate	568,611	619,560
2008B Trust Estate	<u>161,742</u>	<u>154,114</u>
	<u>\$ 3,073,408</u>	<u>\$ 2,815,952</u>

The number of interest rate exchange agreements and the respective counterparties for each Trust Estate as of June 30, 2014 and 2013 are listed below:

Trust Estate	Counterparty	Number of Agreements as of	
		June 30, 2014	June 30, 2013
2000 Trust Estate	Bank of America Merrill Lynch	1	2
2000 Trust Estate	U.S. Bank	1	1
2002 Trust Estate	U.S. Bank	1	1
2002A Trust Estate	Fifth Third Bank	3	3
2002A Trust Estate	U.S. Bank	7	7
2004A Trust Estate	U.S. Bank	6	7
2006A Trust Estate	U.S. Bank	11	12
2008A Trust Estate	U.S. Bank	6	6
2008B Trust Estate	U.S. Bank	<u>5</u>	<u>5</u>
		<u>41</u>	<u>44</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 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, 2014 and 2013.

Income Statement Classification	Liability Derivatives for Fair Value Hedging Activities					
	Year ended June 30, 2014			Year ended June 30, 2013		
	Swap Interest Expense	Lease Interest Income	Ineffective Swap Realized Gain (Loss)	Swap Interest Expense	Lease Interest Income	Ineffective Swap Realized Gain (Loss)
Income from lease agreement receivables	\$ -	\$ 3,073,408	\$ -	\$ -	\$ 2,815,952	\$ -
Interest expense	(3,073,408)	-	-	(2,815,952)	-	-
Balance Sheet Classification	As of June 30, 2014		As of June 30, 2013			
	Class of Derivative	Fair Value	Class of Derivative	Fair Value		
Interest rate exchange	Interest rate contracts	\$ (8,654,984)	Interest Rate Contracts	\$ (9,451,680)		
Lease agreement receivables unrealized appreciation (Hedged Asset)	N/A	<u>8,718,257</u>	N/A	<u>9,514,953</u>		
Cumulative realized gain from ineffectiveness	N/A	<u>\$ 63,273</u>	N/A	<u>\$ 63,273</u>		

Total combined gain due to hedge ineffectiveness was \$0 for both the years ended June 30, 2014 and 2013. Accordingly, the accompanying combined statements of financial position as of June 30, 2014 and 2013 reflect unrealized appreciation in the fair value of lease agreement receivables of \$8,718,257 and \$9,514,953, respectively, and interest rate exchange liabilities of \$8,654,984 and \$9,451,680, 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.

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Notes to the Combined Financial Statements, continued

### 10. Tax Status, continued

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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
2000 Trust Estate	\$ 127,745	\$ 13,126
2002 Trust Estate	33,054	20,019
2006A Trust Estate	90,931	27,694
2008A Trust Estate	<u>20,647</u>	<u>201,056</u>
	<u>\$ 272,377</u>	<u>\$ 261,895</u>

### 11. Related Party Transactions

The Trust Estates pay administrative fees to the Program Administrator. During the years ended June 30, 2014 and 2013, administrative fees paid to the Program Administrator included in administrative and trustee fees in the accompanying combined statements of activities were \$433,055 and \$494,074, respectively. No administrative fees were included in accounts payable at June 30, 2014 and 2013.

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 \$3,383,754 and \$3,655,123 as of June 30, 2014 and 2013, respectively.

## SUPPLEMENTARY INFORMATION



# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Combining Statement of Financial Position

June 30, 2014

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 50,258	\$ 201,596	\$ 942,646	\$ 691,971	\$ 5,542	\$ 312,193	\$ 778,791	\$ 2,982,997
Certificates of deposit	-	-	-	-	-	-	5,000,000	5,000,000
Repurchase agreements	-	5,000,000	-	-	4,955,000	-	-	9,955,000
Investment agreements	6,671,997	-	5,000,000	5,391,066	802,067	5,000,000	-	22,865,130
Accrued investment income receivable	4,653	4,246	4,296	3,209	1	3,657	4,704	24,766
Accrued interest and fees receivable - leases	12,595	12,796	37,577	38,942	72,719	48,427	15,015	238,071
Lease agreement receivables	7,847,407	9,818,280	17,606,515	22,797,610	24,398,013	22,660,947	25,300,519	130,429,291
Lease agreement receivables-unrealized appreciation in fair value	257,620	566,651	1,026,561	1,739,659	3,096,798	1,548,732	482,236	8,718,257
Costs of debt issuance, net	<u>132,349</u>	<u>151,080</u>	<u>173,556</u>	<u>232,289</u>	<u>270,910</u>	<u>276,844</u>	<u>369,885</u>	<u>1,606,913</u>
Total assets	<u>\$ 14,976,879</u>	<u>\$ 15,754,649</u>	<u>\$ 24,791,151</u>	<u>\$ 30,894,746</u>	<u>\$ 33,601,050</u>	<u>\$ 29,850,800</u>	<u>\$ 31,951,150</u>	<u>\$ 181,820,425</u>
<b>Liabilities and Net Asset (Deficit)</b>								
Liabilities:								
Accounts payable and other accrued liabilities	\$ 31,270	\$ 45,377	\$ 81,375	\$ 68,504	\$ 96,345	\$ 83,971	\$ 126,223	\$ 533,065
Accrued interest payable - bonds	710	3,757	6,134	1,594	2,222	2,212	15,409	32,038
Interest rate exchange - liability	257,620	566,651	1,026,561	1,739,659	3,096,798	1,548,732	418,963	8,654,984
Accrued arbitrage rebate	127,745	33,054	-	-	90,931	20,647	-	272,377
Deferred issuance costs	203,499	207,864	238,343	445,102	528,739	581,793	565,851	2,771,191
Bonds payable	<u>14,345,000</u>	<u>14,840,000</u>	<u>23,255,000</u>	<u>28,755,000</u>	<u>29,810,000</u>	<u>27,835,000</u>	<u>30,650,000</u>	<u>169,490,000</u>
Total liabilities	14,965,844	15,696,703	24,607,413	31,009,859	33,625,035	30,072,355	31,776,446	181,753,655
Net assets (deficit), unrestricted	<u>11,035</u>	<u>57,946</u>	<u>183,738</u>	<u>(115,113)</u>	<u>(23,985)</u>	<u>(221,555)</u>	<u>174,704</u>	<u>66,770</u>
Total liabilities and net assets (deficit)	<u>\$ 14,976,879</u>	<u>\$ 15,754,649</u>	<u>\$ 24,791,151</u>	<u>\$ 30,894,746</u>	<u>\$ 33,601,050</u>	<u>\$ 29,850,800</u>	<u>\$ 31,951,150</u>	<u>\$ 181,820,425</u>

See report of independent auditors.

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Combining Statement of Financial Position

June 30, 2013

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 49,218	\$ 174,187	\$ 532,206	\$ 129,495	\$ 499,273	\$ 580,182	\$ 747,735	\$ 2,712,296
Certificates of deposit	-	-	-	-	-	-	5,000,000	5,000,000
Repurchase agreements	-	5,000,000	-	-	4,955,000	-	-	9,955,000
Investment agreements	5,721,316	-	5,000,000	5,398,443	318,120	5,000,000	-	21,437,879
Accrued investment income receivable	5,070	5,317	4,241	2,684	3	3,607	15,737	36,659
Accrued interest and fees receivable - leases	14,105	13,380	42,302	40,639	76,372	51,850	16,519	255,167
Lease agreement receivables	12,857,706	10,971,743	20,003,832	24,780,017	28,530,527	28,723,436	26,985,394	152,852,655
Lease agreement receivables-unrealized appreciation in fair value	501,626	582,166	1,314,013	1,782,419	3,169,240	1,657,667	507,822	9,514,953
Costs of debt issuance, net	<u>146,400</u>	<u>165,142</u>	<u>172,170</u>	<u>251,938</u>	<u>291,802</u>	<u>307,111</u>	<u>398,555</u>	<u>1,733,118</u>
Total assets	<u>\$ 19,295,441</u>	<u>\$ 16,911,935</u>	<u>\$ 27,068,764</u>	<u>\$ 32,385,635</u>	<u>\$ 37,840,337</u>	<u>\$ 36,323,853</u>	<u>\$ 33,671,762</u>	<u>\$ 203,497,727</u>
<b>Liabilities and Net Assets (Deficit)</b>								
Liabilities:								
Accounts payable and other accrued liabilities	\$ 26,903	\$ 42,428	\$ 75,328	\$ 68,896	\$ 105,225	\$ 124,518	\$ 125,577	\$ 568,875
Accrued interest payable - bonds	1,253	1,093	1,697	2,019	2,207	2,212	16,009	26,490
Interest rate exchange - liability	501,626	582,166	1,314,013	1,782,419	3,169,240	1,657,667	444,549	9,451,680
Accrued arbitrage rebate	13,126	20,019	-	-	27,694	201,056	-	261,895
Deferred issuance costs	223,377	229,332	262,825	486,749	576,601	619,923	609,218	3,008,025
Bonds payable	<u>18,455,000</u>	<u>15,990,000</u>	<u>25,255,000</u>	<u>30,200,000</u>	<u>33,850,000</u>	<u>33,930,000</u>	<u>32,315,000</u>	<u>189,995,000</u>
Total liabilities	19,221,285	16,865,038	26,908,863	32,540,083	37,730,967	36,535,376	33,510,353	203,311,965
Net assets (deficit), unrestricted	<u>74,156</u>	<u>46,897</u>	<u>159,901</u>	<u>(154,448)</u>	<u>109,370</u>	<u>(211,523)</u>	<u>161,409</u>	<u>185,762</u>
Total liabilities and net assets (deficit)	<u>\$ 19,295,441</u>	<u>\$ 16,911,935</u>	<u>\$ 27,068,764</u>	<u>\$ 32,385,635</u>	<u>\$ 37,840,337</u>	<u>\$ 36,323,853</u>	<u>\$ 33,671,762</u>	<u>\$ 203,497,727</u>

See report of independent auditors.

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Combining Statement of Activities

Year ended June 30, 2014

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
Revenue:								
Income from lease agreement receivables	\$ 518,750	\$ 298,016	\$ 675,034	\$ 785,648	\$ 1,113,830	\$ 889,406	\$ 695,813	\$ 4,976,497
Amortization of deferred issuance costs	19,878	21,468	24,482	41,647	47,862	38,130	43,367	236,834
Investment interest income and other income (expense)	<u>49,218</u>	<u>52,310</u>	<u>54,161</u>	<u>28,730</u>	<u>(2)</u>	<u>46,084</u>	<u>17,915</u>	<u>248,416</u>
Total revenues	587,846	371,794	753,677	856,025	1,161,690	973,620	757,095	5,461,747
Expenses:								
Administrative and trustee fees	41,987	30,024	84,586	59,540	37,848	68,732	110,338	433,055
Letter of credit fees	112,195	122,211	154,105	223,399	161,665	221,666	382,140	1,377,381
Remarketing fees	12,940	15,552	23,111	25,668	23,192	37,253	31,414	169,130
Professional and other fees	11,000	7,000	6,500	8,583	9,800	6,500	8,000	57,383
Arbitrage rebate	114,619	13,035	-	-	63,237	29,252	-	220,143
Bond interest expense	11,552	10,687	16,818	20,260	21,850	21,371	21,496	124,034
Swap interest expense	332,623	148,174	446,106	459,591	956,561	568,611	161,742	3,073,408
Amortization expense	<u>14,051</u>	<u>14,062</u>	<u>(1,386)</u>	<u>19,649</u>	<u>20,892</u>	<u>30,267</u>	<u>28,670</u>	<u>126,205</u>
Total expenses	<u>650,967</u>	<u>360,745</u>	<u>729,840</u>	<u>816,690</u>	<u>1,295,045</u>	<u>983,652</u>	<u>743,800</u>	<u>5,580,739</u>
Changes in net assets (deficit)	(63,121)	11,049	23,837	39,335	(133,355)	(10,032)	13,295	(118,992)
Net assets (deficit), beginning of year	<u>74,156</u>	<u>46,897</u>	<u>159,901</u>	<u>(154,448)</u>	<u>109,370</u>	<u>(211,523)</u>	<u>161,409</u>	<u>185,762</u>
Net assets (deficit), end of year	\$ <u>11,035</u>	\$ <u>57,946</u>	\$ <u>183,738</u>	\$ <u>(115,113)</u>	\$ <u>(23,985)</u>	\$ <u>(221,555)</u>	\$ <u>174,704</u>	\$ <u>66,770</u>

See report of independent auditors.



# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Combining Statement of Activities

Year ended June 30, 2013

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
Revenue:								
Income from lease agreement receivables	\$ 395,957	\$ 323,740	\$ 755,685	\$ 822,991	\$ 1,325,883	\$ 1,021,375	\$ 724,353	\$ 5,369,984
Amortization of deferred issuance costs	23,648	21,480	39,369	44,710	12,776	45,881	22,369	210,233
Investment interest income and other income	64,288	58,216	58,293	32,315	25,034	50,056	26,883	315,085
Arbitrage credit	-	-	-	-	-	2,247	-	2,247
Total revenues	483,893	403,436	853,347	900,016	1,363,693	1,119,559	773,605	5,897,549
Expenses:								
Administrative and trustee fees	53,129	45,094	99,408	72,151	59,899	62,319	102,074	494,074
Letter of credit fees	104,702	132,101	161,713	86,229	136,231	275,605	401,504	1,298,085
Remarketing fees	15,476	15,038	26,418	22,348	23,669	26,229	34,576	163,754
Professional and other fees	95,962	6,500	6,000	7,842	-	-	-	116,304
Arbitrage rebate	13,126	20,019	-	-	19,269	-	-	52,414
Bond interest expense	28,958	22,027	38,750	45,154	52,864	52,027	62,109	301,889
Swap interest expense	42,875	149,778	492,079	466,694	890,852	619,560	154,114	2,815,952
Amortization expense	12,508	15,224	30,844	20,789	21,056	17,518	26,619	144,558
Total expenses	366,736	405,781	855,212	721,207	1,203,840	1,053,258	780,996	5,387,030
Changes in net assets (deficit)	117,157	(2,345)	(1,865)	178,809	159,853	66,301	(7,391)	510,519
Net assets (deficit), beginning of year	(43,001)	49,242	161,766	(333,257)	(50,483)	(277,824)	168,800	(324,757)
Net assets (deficit), end of year	\$ 74,156	\$ 46,897	\$ 159,901	\$ (154,448)	\$ 109,370	\$ (211,523)	\$ 161,409	\$ 185,762

See report of independent auditors.

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Combining Statement of Cash Flows

Year ended June 30, 2014

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
<b>Cash flows from operating activities:</b>								
Change in net assets	\$ (63,121)	\$ 11,049	\$ 23,837	\$ 39,335	\$ (133,355)	\$ (10,032)	\$ 13,295	\$ (118,992)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:								
Amortization of costs of debt issuance	14,051	14,062	(1,386)	19,649	20,892	30,267	28,670	126,205
Amortization of deferred issuance costs	(19,878)	(21,468)	(24,482)	(41,647)	(47,862)	(38,130)	(43,367)	(236,834)
Increase (decrease) in cash due to changes in:								
Accrued investment income receivable	417	1,071	(55)	(525)	2	(50)	11,033	11,893
Accrued interest and fees receivable - leases	1,510	584	4,725	1,697	3,653	3,423	1,504	17,096
Accounts payable and other accrued expenses	4,367	2,949	6,047	(392)	(8,880)	(40,547)	646	(35,810)
Accrued interest payable - bonds	(543)	2,664	4,437	(425)	15	-	(600)	5,548
Accrued arbitrage rebate	114,619	13,035	-	-	63,237	(180,409)	-	10,482
Net cash provided by (used in) operating activities	51,422	23,946	13,123	17,692	(102,298)	(235,478)	11,181	(220,412)
<b>Cash flows from investing activities:</b>								
Proceeds from lease agreements	5,010,299	1,153,463	2,397,317	1,982,407	4,132,514	6,062,489	1,684,875	22,423,364
Net (investment in) proceeds from repurchase and investment agreements and certificates of deposit	(950,681)	-	-	7,377	(483,947)	-	-	(1,427,251)
Net cash provided by investing activities	4,059,618	1,153,463	2,397,317	1,989,784	3,648,567	6,062,489	1,684,875	20,996,113
<b>Cash flows from financing activities:</b>								
Principal payments on bonds	(4,110,000)	(1,150,000)	(2,000,000)	(1,445,000)	(4,040,000)	(6,095,000)	(1,665,000)	(20,505,000)
Net cash used in financing activities	(4,110,000)	(1,150,000)	(2,000,000)	(1,445,000)	(4,040,000)	(6,095,000)	(1,665,000)	(20,505,000)
Net increase (decrease) in cash and cash equivalents	1,040	27,409	410,440	562,476	(493,731)	(267,989)	31,056	270,701
Cash and cash equivalents, beginning of year	49,218	174,187	532,206	129,495	499,273	580,182	747,735	2,712,296
Cash and cash equivalents, end of year	\$ 50,258	\$ 201,596	\$ 942,646	\$ 691,971	\$ 5,542	\$ 312,193	\$ 778,791	\$ 2,982,997

See report of independent auditors.

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Combining Statement of Cash Flows

Year ended June 30, 2013

	2000	2002	2002A	2004A	2006A	2008A	2008B	Total
<b>Cash flows from operating activities:</b>								
Change in net assets	\$ 117,157	\$ (2,345)	\$ (1,865)	\$ 178,809	\$ 159,853	\$ 66,301	\$ (7,391)	\$ 510,519
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:								
Amortization of costs of debt issuance	12,507	15,224	30,844	20,789	21,056	17,519	26,619	144,558
Amortization of deferred issuance costs	(23,648)	(21,480)	(39,369)	(44,710)	(12,776)	(45,881)	(22,369)	(210,233)
Increase (decrease) in cash due to changes in:								
Accrued investment income receivable	3,276	(189)	868	465	(2)	818	-	5,236
Accrued interest and fees receivable - leases	13,027	1,327	5,073	2,836	3,317	4,400	3,367	33,347
Accounts payable and other accrued expenses	1,130	7,791	599	(59,783)	(10,255)	31,327	(1,336)	(30,527)
Accrued interest payable - bonds	(1,527)	(1,532)	(2,436)	(2,759)	(3,086)	(3,500)	10,802	(4,038)
Accrued arbitrage rebate	<u>13,126</u>	<u>20,019</u>	<u>-</u>	<u>-</u>	<u>19,269</u>	<u>(2,248)</u>	<u>-</u>	<u>50,166</u>
Net cash provided by (used in) operating activities	135,048	18,815	(6,286)	95,647	177,376	68,736	9,692	499,028
<b>Cash flows from investing activities:</b>								
Proceeds from lease agreements	1,329,069	1,168,596	2,027,093	1,448,278	1,496,977	4,236,654	2,071,573	13,778,240
Net proceeds from repurchase and investment agreements and certificates of deposit	<u>(177,718)</u>	<u>-</u>	<u>-</u>	<u>(184,345)</u>	<u>122,064</u>	<u>-</u>	<u>11,735</u>	<u>(228,264)</u>
Net cash provided by investing activities	1,151,351	1,168,596	2,027,093	1,263,933	1,619,041	4,236,654	2,083,308	13,549,976
<b>Cash flows from financing activities:</b>								
Principal payments on bonds	<u>(1,370,000)</u>	<u>(1,210,000)</u>	<u>(2,015,000)</u>	<u>(1,380,000)</u>	<u>(1,500,000)</u>	<u>(4,220,000)</u>	<u>(2,130,000)</u>	<u>(13,825,000)</u>
Net cash used in financing activities	<u>(1,370,000)</u>	<u>(1,210,000)</u>	<u>(2,015,000)</u>	<u>(1,380,000)</u>	<u>(1,500,000)</u>	<u>(4,220,000)</u>	<u>(2,130,000)</u>	<u>(13,825,000)</u>
Net (decrease) increase in cash and cash equivalents	(83,601)	(22,589)	5,807	(20,420)	296,417	85,390	(37,000)	224,004
Cash and cash equivalents, beginning of year	<u>132,819</u>	<u>196,776</u>	<u>526,399</u>	<u>149,915</u>	<u>202,856</u>	<u>494,792</u>	<u>784,735</u>	<u>2,488,292</u>
Cash and cash equivalents, end of year	<u>\$ 49,218</u>	<u>\$ 174,187</u>	<u>\$ 532,206</u>	<u>\$ 129,495</u>	<u>\$ 499,273</u>	<u>\$ 580,182</u>	<u>\$ 747,735</u>	<u>\$ 2,712,296</u>

See report of independent auditors.