

**City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust
Lease Program Revenue Bonds,
Variable Rate 2002 Series A
Financial Statements
Years Ended June 30, 2009 and 2008**

**City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A**

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Mountjoy
Chilton
Medley

Independent Auditor's Report on Financial Statements

To the Board of Directors
Kentucky League of Cities Funding Trust

We have audited the accompanying statements of financial position of the Trust Estate of the City of Fort Mitchell, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate 2002 Series A, as of June 30, 2009 and 2008, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Kentucky League of Cities. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As further explained in Note L to the financial statements, the Trust Estate records a participant's share of issuance costs to originate a lease as income in the accompanying statements of activities and changes in net assets in the year the lease is closed. In our opinion, these costs should be capitalized and amortized 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.

In our opinion, except for the effects of not capitalizing and amortizing participants' share of issuance costs, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust Estate of the City of Fort Mitchell, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate 2002 Series A as of June 30, 2009 and 2008 and the results of its activities and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Mountjoy Chilton Medley LLP

Mountjoy Chilton Medley LLP
Louisville, Kentucky
September 14, 2010

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Statements of Financial Position
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 1,973,790	\$ 2,300,561
Accrued investment income receivable	6,349	13,006
Accrued interest and fees receivable-leases	42,767	32,697
Prepaid expenses	-	3,500
Investment contracts	5,000,000	5,000,000
Lease agreement receivables	28,610,388	32,940,792
Lease agreement receivables-unrealized appreciation in fair value	863,966	180,127
Costs of issuance, net	<u>276,979</u>	<u>312,479</u>
Total Assets	<u>\$ 36,774,239</u>	<u>\$ 40,783,162</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 56,434	\$ 70,264
Accrued interest payable	49,077	74,788
Interest rate exchanges	863,966	180,127
Due to related party	-	2,153
Bonds payable	<u>35,340,000</u>	<u>40,000,000</u>
Total Liabilities	36,309,477	40,327,332
Commitments and Contingencies		
Net Assets, unrestricted	<u>464,762</u>	<u>455,830</u>
Total Liabilities and Net Assets	<u>\$ 36,774,239</u>	<u>\$ 40,783,162</u>

The accompanying notes are an integral part of these financial statements.

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues		
Income from lease agreement receivables	\$ 1,157,214	\$ 1,383,040
Investment income	<u>123,979</u>	<u>225,502</u>
Total Revenues	1,281,193	1,608,542
Expenses		
Administrative and trustee fees	82,538	90,518
Letter of credit fees	150,304	164,315
Remarketing fees	36,487	40,743
Other fees	10,888	13,238
Interest expense	<u>992,044</u>	<u>1,338,671</u>
Total Expenses	<u>1,272,261</u>	<u>1,647,485</u>
Increase (Decrease) in Net Assets	8,932	(38,943)
Net Assets at Beginning of Year	<u>455,830</u>	<u>494,773</u>
Net Assets at End of Year	<u>\$ 464,762</u>	<u>\$ 455,830</u>

The accompanying notes are an integral part of these financial statements.

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 8,932	\$ (38,943)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities		
Amortization of costs of issuance	35,500	34,694
Changes in:		
Accrued investment income receivable	6,657	17,051
Accrued interest and fees receivable-leases	(10,070)	21,666
Prepaid expenses	3,500	-
Accounts payable	(13,830)	(14,840)
Accrued interest payable	(25,711)	(58,720)
Net Cash Provided (Used) by Operating Activities	<u>4,978</u>	<u>(39,092)</u>
Cash Flows from Investing Activities		
Proceeds from lease agreements	4,330,404	2,558,586
Due to related party	(2,153)	2,153
Due from related party	<u>-</u>	<u>133,105</u>
Net Cash Provided by Investing Activities	4,328,251	2,693,844
Cash Flows from Financing Activities		
Principal payments on bonds	<u>(4,660,000)</u>	<u>(1,750,000)</u>
Cash Used by Financing Activities	<u>(4,660,000)</u>	<u>(1,750,000)</u>
(Decrease) Increase in Cash and Cash Equivalents	(326,771)	904,752
Cash and Cash Equivalents at Beginning of Year	<u>2,300,561</u>	<u>1,395,809</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,973,790</u>	<u>\$ 2,300,561</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest on bonds	\$ 982,255	\$ 1,362,687
Noncash investing activities:		
Change in the fair value of lease agreement receivables and related interest rate exchanges	683,839	20,623

The accompanying notes are an integral part of these financial statements.

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Notes to Financial Statements
June 30, 2009 and 2008

Note A - Nature of the Organization and Operations

General: The Kentucky League of Cities 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, each member of the Board of Trustees must be an elected official of a Kentucky city.

Trust Estate: In October 2002, the City of Fort Mitchell, Kentucky ("the Issuer") issued \$50,000,000 Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate 2002 Series A ("the Bonds") to facilitate the purposes of the lease program.

The Trust Estate is defined as all right, title, and interest of the Issuer 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 other than the Rebate Account and the Program Discretionary Account (as of June 30, 2009 and 2008, no amounts have been deposited in either the Rebate Account or the Program Discretionary Account) 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 Indenture by the Issuer or the Funding Trust or by anyone on their behalf or with written consent.

Distributions on Termination: Upon ultimate termination of the Trust Estate (no later than October 2032), any assets remaining after satisfaction of all Trust Estate liabilities will be returned to the program participants on a pro rata basis.

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Notes to Financial Statements (Continued)
June 30, 2009 and 2008

Note B - Contractual Agreements

Administrative Services: Pursuant to an October 2002 program administration agreement, the Kentucky League of Cities ("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 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. The fee is payable only to the extent funds are available in the Revenue Fund or otherwise available from the Trust Estate. The costs of these services are included as a component of administrative and trustee fees in the accompanying statements of activities and changes in net assets.

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

Trustee Services: Under the terms of the October 2002 Trust Indenture and the July 2008 Agreement of Resignation, Appointment and Acceptance, Huntington National Bank ("the Trustee"), acts as Trustee for the Trust Estate and, as such, holds investments, receives lease rental payments, maintains appropriate books and records to account for all funds established under the Trust Indenture, and conducts other transactions as directed by the Program Administrator. In return for the services provided by the Trustee, the Trust Estate pays an annual fee of \$4,000. This annual fee is a component of administrative and trustee fees in the accompanying statements of activities and changes in net assets.

Financial Advisor: Lawrenson Services, Inc. ("Lawrenson") performs certain financial computations with respect to the lease program pertaining to lease terms and payments. Lawrenson is compensated for these services by the Program Administrator out of its administrative fee.

Credit Facility: The Funding Trust and U.S. Bank National Association ("US Bank") are party to an October 2002 Letter of Credit and Reimbursement Agreement ("the Agreement"). Concurrent with the Agreement, US Bank issued an irrevocable transferable direct pay letter of credit in favor of the Funding Trust. The letter of credit is used by the Funding Trust to facilitate the redemption of the Bonds immediately prior to their remarketing (see Bond Remarketing in Note B). The initial term of the Credit Facility expired in October 2005. The Credit Facility automatically extends for periods of three years beyond the October 2005 expiration date unless ninety days prior to the expiration date US Bank notifies the Trustee that US Bank does not intend to extend the date. As of June 30, 2009, the expiration date has been extended to October 2011. In no case shall any such renewal or extension extend the termination date beyond October 2032. At June 30, 2009 and 2008, the available balance on the letter of credit is \$40,591,781. As of June 30, 2009 and 2008 there is no balance outstanding on the letter of credit.

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Notes to Financial Statements (Continued)
June 30, 2009 and 2008

Note B - Contractual Agreements (Continued)

Credit Facility (Continued): In return for the Letter of Credit and Reimbursement Agreement, the Trust Estate paid a one-time commitment fee in the amount of \$10,000. The Trust Estate also pays an annual letter of credit fee to US Bank equal to .4% of the maximum amount available to be drawn at such time under the letter of credit, a drawing fee of \$50 per disbursement made by US 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 H, 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.

The Funding Trust and Fifth Third Securities, Inc. ("Fifth Third" or "the Remarketing Agent") are party to an October 2002 remarketing agreement. Under the terms of the remarketing agreement, Fifth Third 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 letter of credit (see Credit Facility in Note B).

Under the remarketing agreement, the Trust Estate paid a one-time fee of \$185,000 for services related to the competitive sale of the Bonds. This one-time fee is being amortized over the remaining life of the Bonds. Additionally the Trust Estate pays to Fifth Third remarketing fees equal to .1 % of the principal amount of the outstanding Bonds.

The remarketing agreement remains in effect until and including the earlier of the date of 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 providing 30 days written notice.

Paying Agent: Cede & Co. ("the Paying Agent") (partnership nominee of The Depository Trust Company) currently serves as the paying agent under the terms set forth in the Trust Indenture. The Paying Agent receives funds from the Trust Estate as well as from draws on the letter of credit and disburses such funds to the bondholders in payment of the Trust Estate's principal and interest obligations.

Note C - Summary of Significant Accounting Policies

1. Basis of Presentation: The financial statements of the Trust Estate have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.
2. Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Notes to Financial Statements (Continued)
June 30, 2009 and 2008

Note C - Summary of Significant Accounting Policies (Continued)

3. Investments Held by the Trustee: All invested funds are held by the Trustee. The Trustee is mandated by the Trust Indenture as to the types of investments in which the Trust Estate can be invested. Statement of Financial Accounting Standards No. 124 ("SFAS 124"), *Accounting for Certain Investments Held by Not-for-Profit Organizations*, 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 Trustee are stated at fair value based on the Trustee's independent valuation service.
4. Cash and Cash Equivalents: The Funding Trust considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Trust Estate regularly maintains cash in excess of federally insured limits. Accordingly, at various times during the years ended June 30, 2009 and 2008, the balances were uninsured and uncollateralized.
5. 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, 2009 and 2008 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. An allowance for doubtful accounts is not reflected in these financial statements because the Funding Trust considers all balances to be fully collectible.

Any lease rental payment that is not paid within ten days of the due date accrues 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 a default. Four lessees were late in making payments at June 30, 2009. These lessees are current as of the date of the audit report.

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 the administrative, credit, issue, and fiduciary fees of the lease program.

Pursuant to the terms of the lease agreement, the lessee, after notice from the Funding Trust, will receive a credit against the base rental payable on the date specified in the lease agreement in an amount equal to the excess, if any, of the aggregate of the interest components of base rentals paid by the lessee during the preceding fiscal year at the assumed interest rate. These excess amounts, if any, are netted against the portion of income from lease agreement receivables attributable to interest and are reported as a Trust Estate liability as of year-end. If applicable, the lessees shall immediately pay additional rentals as defined and as required in the lease agreement. Accordingly, these amounts, if any, are reported as a receivable of the Trust Estate as of year-end.

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Notes to Financial Statements (Continued)
June 30, 2009 and 2008

Note C - Summary of Significant Accounting Policies (Continued)

6. Costs of Issuance: Costs of issuance related to the bond issuance are amortized over the life of the bond issue (30 years) using the effective interest method. Interest expense on the bond issuance amortization included in interest expense was \$35,500 and \$34,694 for the years ended June 30, 2009 and 2008, respectively. Amortization of the cost of issuance for each of the next five succeeding fiscal year ends is expected to be approximately \$23,700, \$22,700, \$21,600, \$20,500 and \$19,500 for the years ended June 30, 2010 through June 30, 2014, respectively.
7. Net Assets: There are no donor-imposed restrictions on the net assets of the Trust Estate, and thus the net assets are considered "unrestricted" as defined by Statement of Financial Accounting Standards No. 117 ("SFAS 117"), *Financial Statements of Not-for-Profit Organizations*.
8. Interest Rate Exchange Agreements: The Trust Estate accounts for interest rate exchange agreements in accordance with Statement of Financial Accounting Standards No. 133 ("SFAS 133"), *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the statement of financial position as either an asset or liability measured at its fair value.

Note D - Fair Value of Financial Instruments

The Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements. SFAS 157 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.

SFAS 157 was adopted by the Funding Trust for financial assets and liabilities as of July 1, 2008. 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.

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Notes to Financial Statements (Continued)
June 30, 2009 and 2008

Note D - Summary Fair Value of Financial Instruments (Continued)

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

Cash Equivalents: Many of the Trust Estate's cash equivalents have short-term maturities or have interest rates which vary in the short-term. The fair values of such instruments approximate their respective carrying values (Level 1).

Interest Rate Exchange Agreements: The Trust Estate has entered into interest rate exchange agreements to hedge against changes in the fair value of underlying lease receivables (see Note I). 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 receivables. The fair values of the swap contracts approximate the carrying value of these financial instruments (Level 2).

Investment Contract: The investment contract (see Note F) was negotiated and entered into in connection with specific financing transactions. Due to the uniqueness of this arrangement, the lack of transferability, and the fact that the principal amount invested, in most cases, fluctuates over the term of the agreement, there are no identical instruments traded in active markets. Accordingly, fair value of the instrument approximates the respective carrying value (Level 2).

Letter of Credit and Reimbursement Agreement: As described in Note B, the Funding Trust and US Bank are party to a Letter of Credit and Reimbursement Agreement to provide additional collateral for the Bonds outstanding. This Agreement is 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 agreements has already been included in the fair values of the related Bonds.

The following table summarizes the Trust Estate's assets and liabilities measured at fair value as of June 30, 2009:

Assets	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash Equivalents	\$ 1,973,790	\$ -	\$ 1,973,790
Investment Contract	-	5,000,000	5,000,000
	<u>\$ 1,973,790</u>	<u>\$ 5,000,000</u>	<u>\$ 6,973,790</u>
 Liabilities			
Interest Rate Exchanges	\$ -	\$ 863,966	\$ 863,966

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Notes to Financial Statements (Continued)
June 30, 2009 and 2008

Note E - Concentrations of Credit Risk

Financial instruments that potentially subject the Trust Estate to concentrations of credit risk consist primarily of the investment contract and the lease agreement receivables.

The stated interest rates, terms, and principal amounts pertaining to the investment contract (see Note F) are generally correlated in such a way that changes in market interest rates should not have a material net impact on the value of the investment contract. The investment contract is collateralized in obligations of the United States and its agencies. Such collateral is held by US Bank for the term of the investment contract.

As indicated in Note G, 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.

Note F - Trust Estate Accounts

Pursuant to the issue of the City of Fort Mitchell, Kentucky, Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate 2002 Series A, the Funding Trust entered into a Trust Indenture Agreement with Central Bank & Trust Company. Pursuant to the Agreement of Resignation, Appointment and Acceptance, Huntington National Bank became Trustee in July 2008. The Trust Indenture provides for the issuance of the Bonds and the establishment of the following accounts to be held by the Trustee.

Bond Proceeds Account: This account was initially funded by the \$50,000,000 bond proceeds. The account subsequently funded the Project Account (\$44,355,000), the Expense Account (\$645,000), and the Debt Service Reserve Account (\$5,000,000). The account is currently funded by the investment earnings of the Project and Debt Service Reserve Accounts. The account transfers amounts to the Revenue Account at times and in 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 program. In connection with each closing for the lessee, the Trustee creates 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 Trustee deposits 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 Indenture 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.

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Notes to Financial Statements (Continued)
June 30, 2009 and 2008

Note F - 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 Trustee, 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 Indenture 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 funds as a result of the assets of the Trust Estate exceeding the liabilities against the Trust Estate. Funds in the Program Discretionary Account are disbursed on the direction of the Funding Trust for purposes specified by the Funding Trust. As of June 30, 2009 and 2008, no amounts have been deposited into this account.

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. As of June 30, 2009 and 2008, 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 the Credit Facility Provider for such payment).

The Trust Estate Accounts at June 30, 2009 are summarized as follows:

	Cash and Cash Equivalents	Investment Contracts	Total
Redemption Account	\$ 1,753,776	\$ -	\$ 1,753,776
Revenue Account	220,014	-	220,014
Debt Service Reserve Account	-	5,000,000	5,000,000
	<u>\$ 1,973,790</u>	<u>\$ 5,000,000</u>	<u>\$ 6,973,790</u>

City of Fort Mitchell, Kentucky
Kentucky League of Cities Funding Trust Lease Program
Revenue Bonds, Variable Rate 2002 Series A
Notes to Financial Statements (Continued)
June 30, 2009 and 2008

Note F - Trust Estate Accounts (Continued)

The Trust Estate Accounts at June 30, 2008 are summarized as follows:

	Cash and Cash Equivalents	Investment Contracts	Total
Bond Proceeds Account	\$ 123,860	\$ -	\$ 123,860
Project Account	152,376	-	152,376
Redemption Account	1,923,782	-	1,923,782
Revenue Account	66,172	-	66,172
Expense Account	20,882	-	20,882
Debt Service Reserve Account	13,489	5,000,000	5,013,489
	<u>\$ 2,300,561</u>	<u>\$ 5,000,000</u>	<u>\$ 7,300,561</u>

At June 30, 2009 and 2008, the portion of the Project Account, Bond Proceeds Account, Expense Account, and Debt Service Reserve Account held by the Trustee in the Trustee's name on behalf of the Funding Trust pursuant to the terms of a guaranteed investment contract with Societe Generale totaled \$5,000,000 for both years.

At June 30, 2008, the portion of the Project Account, Bond Proceeds Account and Expense Account, and Debt Service Reserve Account held by the Trustee in the Trustee's name on behalf of the Funding Trust pursuant to the terms of a separate account funding agreement contract with US Bank totaled \$154,540. Pursuant to the terms of this contract, interest on the Project Account, Bond Proceeds Account, Expense Account, and Debt Service Reserve Account's principal balances shall accrue at the guaranteed interest rate of .40% in excess of the bond rate on the daily outstanding principal balances. All interest accrues monthly.

At June 30, 2009, the remaining Trust Estate funds are held in the Huntington Protected Deposit Account, a federally-insured, interest-bearing deposit sweep account. At June 30, 2008, the remaining Trust Estate funds are invested in securities of the Federated Government Obligations Tax-Managed Fund, a money market fund investing exclusively in United States treasuries and government agency securities.

Note G - 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 variable rate leases. The lease rental payment is computed with respect to the variable rate bonds and the interest rate in effect on the first day of each week during the lease term, 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 I). The Funding Trust could originate leases during a three-year period that ended October 2005. The lease agreement receivables at June 30, 2009 and 2008 are \$28,610,388 and \$32,940,792, respectively.

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Note G - Lease Agreement Receivables (Continued)

Future minimum lease rental payments required under the lease agreement receivables at June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 2,198,692
2011	2,366,533
2012	1,995,060
2013	2,045,689
2014	2,020,272
Thereafter	<u>17,984,142</u>
	<u><u>\$ 28,610,388</u></u>

As of June 30, 2009, lease rental payments associated with four separate leases had not been received as scheduled under the lease agreement. Subsequent to year-end, these payments were collected; accordingly, no allowance has been established.

Note H - Bonds Payable

In October 2002, the City of Fort Mitchell, Kentucky issued \$50,000,000 Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, Variable Rate 2002 Series A. The Bonds are issuable as fully registered Bonds without coupons and will mature in October 2032, subject to mandatory and optional redemption prior to maturity (as described below). The Bonds are not general obligations of the Issuer or the Funding Trust but are special and limited obligations payable solely from the Trust Estate.

The Bonds were initially offered as Weekly Rate Bonds. Weekly Rate Bonds can be converted to Daily Rate Bonds, Adjustable Rate Bonds, or Fixed Rate Bonds.

Daily 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 Daily and Weekly Rate Bonds and on each September 1 and March 1 (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, each September 1 or March 1, which is at least ten years from the fixed rate conversion date.

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Note H - Bonds Payable (Continued)

Daily Rate Bonds, Weekly Rate Bonds, and Adjustable Rate Bonds are subject to mandatory redemption in part on the first September 1 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 funds 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.

When the Daily Rate Bonds, Weekly Rate Bonds, and the Adjustable Rate Bonds are redeemed, the Remarketing Agent (see Note B) will use 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 (October 2032).

The assets of the Trust Estate (see Trust Estate as defined in Note A) are pledged to secure repayment of the Bonds. Repayment of the Bonds is supported by the Credit Facility agreement described in Note B.

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 Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index. During the year ended June 30, 2009, the variable interest rate on the Bonds outstanding ranged from 0.30% to 8.00%. During the year ended June 30, 2008, the variable interest rate on the Bonds outstanding ranged from 1.48% to 4.02%.

Note I - Interest Rate Exchange Agreements

The Funding Trust utilizes interest rate exchanges to provide fixed rate leases without bearing interest rate risk (see also Note G). 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 leases receivable. The net interest payments made (received) under the swap exchanges (settlements) are included as a component of interest expense (income).

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.

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Note I - Interest Rate Exchange Agreements (Continued)

As of June 30, 2009, the Funding Trust has ten outstanding interest rate exchange agreements, with three agreements provided by Fifth Third Bank and seven agreements provided by US Bank. The Funding Trust pays a fixed rate that ranges from 2.19% to 4.06%. The Funding Trust receives a variable rate tied to the SIFMA Municipal Swap Index. During 2009 and 2008 the Trust Estate made net settlement payments under the exchange agreements totaling \$425,925 and \$183,282, respectively.

As of June 30, 2009 and 2008, the fair value of the interest rate exchange agreements is negative \$863,966 and \$180,127, respectively. Accordingly, the accompanying statements of financial position as of June 30, 2009 and 2008 reflect liabilities to the exchange counterparty of \$863,966 and \$180,127, respectively, and corresponding adjustments to the fair value of leases receivable of \$863,966 and \$180,127, respectively. There was no gain or loss due to hedge ineffectiveness for the years ended June 30, 2009 and 2008.

The Funding Trust is exposed to credit losses in the event of non-performance by the exchange counterparties. However, the Funding Trust anticipates that the exchange counterparties 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 counterparties.

Note J - Tax Status

All funds are considered the 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. The income of the Trust Estate will accrue to the benefit of the participating agencies. As such, the income of the Trust Estate is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made in the accompanying 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 Trust Estate has no accrued arbitrage liability as of June 30, 2009 and 2008.

Note K - Related Party Transactions

The Trust Estate pays administrative fees to the Kentucky League of Cities as Program Administrator. During the years ended June 30, 2009 and 2008, administrative fees were \$78,538 and \$86,518, respectively. The trust estate also had amounts due to and from related parties. At June 30, 2009 and 2008, total administrative fees included in accounts payable were \$17,872 and \$21,236, respectively.

As of June 30, 2008, the Trust Estate was to pay to the City of Newport, Kentucky, Kentucky League of Cities Funding Trust Revenue Bonds, Lease Program, Variable Series 2002 ("the Newport Trust Estate") \$2,153. The Newport Trust Estate is a related trust managed by the same Program Administrator.

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Note L - Departure from U.S. Generally Accepted Accounting Principles

The Trust Estate records a participant's share of issuance costs to originate a lease as income in the year the lease is closed. A participant's share of issuance costs should be capitalized and amortized 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. If the participants' share of issuance costs were capitalized, the following accounts would be increased (decreased):

	<u>2009</u>	<u>2008</u>
Liabilities:		
Costs of issuance	\$ 425,997	\$ 465,474
Net Assets:		
Net Assets, unrestricted	(425,997)	(465,474)
Change in net assets:		
Income from lease agreement receivables (amortization)	39,477	42,536

Note M - New Accounting Pronouncements

In June 2006, the FASB issued interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Implementation of FIN 48 has been deferred for nonpublic enterprises and becomes effective for fiscal years beginning after December 15, 2008. The Trust Estate has elected to defer adoption of FIN 48 until fiscal 2010 and has not determined the impact, if any, of adopting FIN 48.

The Trust Estate's policy for evaluating uncertain tax positions is to evaluate the facts and circumstances associated with the specific tax position giving rise to the uncertainty and to consider the likelihood of success. Currently, the Trust Estate records a provision for uncertain tax positions when a loss is probable and reasonably estimable.

In March 2008 the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. SFAS 161 amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Trust Estate is currently considering the impact, if any, the adoption of SFAS 161 will have on the financial statements.

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Note N - Subsequent Events

Subsequent to year end, the Letter of Credit and Reimbursement Agreement with US Bank was amended to increase annual fees to .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 termination of the agreement. The letter of credit fee for the amount available to be drawn under the letter of credit agreement corresponding to the principal balance outstanding on fixed rate leases will remain at .4% through the termination of the agreement. The effective date of the amendment is July 1, 2009.

Subsequent events for the Trust Estate have been considered through the date of the Independent Auditor's Report, which represents the date which the financial statements were available to be issued.