

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

*Years Ended June 30, 2018 and 2017  
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, 2018 and 2017, the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 policies 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, 2018 and 2017, 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 26 - 31 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 Dotson Allen Ford, PLLC*

January 3, 2019  
Lexington, Kentucky

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

Combined Statements of Financial Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,112,126	\$ 1,128,511
Program discretionary fund account	3,758	459,625
Accrued investment income receivable	915	390
Accrued interest and fees receivable - leases	-	50
Lease agreement receivables	76,699,441	83,808,401
Lease agreement receivables - unrealized appreciation in fair value	4,997,845	7,452,240
Costs of debt issuance, net	<u>574,831</u>	<u>610,727</u>
 Total assets	 <u>\$ 83,388,916</u>	 <u>\$ 93,459,944</u>
<b>Liabilities and Net Deficit</b>		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 69,801	\$ 44,734
Accrued interest payable - bonds	125,205	104,333
Interest rate exchange - liability	4,997,845	7,452,240
Deferred issuance costs	2,155,029	2,282,332
Bonds payable	<u>77,262,962</u>	<u>84,411,353</u>
 Total liabilities	 84,610,842	 94,294,992
 Net deficit, unrestricted	 <u>(1,221,926)</u>	 <u>(835,048)</u>
 Total liabilities and net deficit	 <u>\$ 83,388,916</u>	 <u>\$ 93,459,944</u>

See accompanying notes.

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

Combined Statements of Activities

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues:		
Income from lease agreement receivables	\$ 3,267,249	\$ 3,121,559
Amortization of deferred issuance costs	127,303	127,301
Investment and other income	6,417	3,629
Net realized losses	<u>-</u>	<u>(247)</u>
 Total revenues, net of loss	 3,400,969	 3,252,242
Expenses:		
Administrative and trustee fees	185,383	201,320
Professional and other fees	5,000	9,394
Bond interest expense	1,446,034	1,248,116
Swap interest expense	1,415,534	1,722,681
Amortization expense	<u>35,896</u>	<u>35,896</u>
 Total expenses	 <u>3,087,847</u>	 <u>3,217,407</u>
 Change in net assets	 313,122	 34,835
Net deficit, beginning of year	(835,048)	(869,883)
 Transfer of program discretionary funds to the Program Administrator (Note 11)	 <u>(700,000)</u>	 <u>-</u>
Net deficit, end of year	\$ <u>(1,221,926)</u>	\$ <u>(835,048)</u>

See accompanying notes.

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

Combined Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 313,122	\$ 34,835
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of cost of debt issuance	35,896	35,896
Amortization of deferred issuance costs	(127,303)	(127,301)
Increase (decrease) in cash due to changes in:		
Program discretionary fund account	455,867	(134,670)
Accrued investment income receivable	(525)	(350)
Accrued interest and fees receivable - leases	50	252,482
Prepays and other current assets	-	583
Accounts payable and other accrued liabilities	25,067	(211,451)
Accrued interest payable - bonds	<u>20,872</u>	<u>56,067</u>
Net cash provided by (used in) operating activities	723,046	(93,909)
<b>Cash flows from investing activities:</b>		
Proceeds from lease agreements	<u>7,108,960</u>	<u>13,213,573</u>
Net cash provided by investing activities	7,108,960	13,213,573
<b>Cash flows from financing activities:</b>		
Principal payments on bonds	(7,148,391)	(13,350,839)
Transfer of program discretionary funds to the Program Administrator (Note 11)	<u>(700,000)</u>	<u>-</u>
Net cash used in financing activities	<u>(7,848,391)</u>	<u>(13,350,839)</u>
Net decrease in cash and cash equivalents	(16,385)	(231,175)
Cash and cash equivalents, beginning of year	<u>1,128,511</u>	<u>1,359,686</u>
Cash and cash equivalents, end of year	<u>\$ 1,112,126</u>	<u>\$ 1,128,511</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for:		
Interest on bonds	\$ 1,425,162	\$ 1,192,049
Interest on interest rate exchanges	1,415,534	1,722,681
Noncash investing transactions:		
Change in the fair value of lease agreement receivables	\$ 2,454,395	\$ 4,688,812
Change in the fair value of interest rate exchanges	(2,454,395)	(4,688,812)

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 and each series was backed by letters of credit.

In fiscal year 2016, the bond pools were restructured. The letter of credit issuer (US Bank) elected to not renew these letters of credit; rather, they decided to buy the bonds. As each pool was restructured, all of the Bonds were mandatorily tendered at various times from November 2015 to April 2016. All investments in the Debt Service Reserve funds were sold and the proceeds, along with other excess cash, were used to reimburse the letters of credit for the tender draws. Any excess funds in the pools were transferred to the Program Discretionary Fund. The Issuers issued new bonds in the amount of the leases outstanding. The leases outstanding will always approximate bonds outstanding (plus/minus the timing of the payments), as principal payments received on the leases are immediately used to pay down the bonds. The bonds are no longer publicly held or traded. After the restructure, each pool was split into two different bonds: Series A1 and Series A2 - the Series A1 contain variable rate leases; the Series A2 contain those leases which have interest rate exchange agreements.



# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

## Notes to the Combined Financial Statements

### 1. Nature of Organization and Operations, continued

Below is a summary of the fourteen trust estates (collectively, the Trust Estates) that comprise the Kentucky League of Cities Funding Trust Lease Program:

Trust Estate	Issuer	Bond Series	Issue Date	Maturity Date
2000 Trust Estate	City of Jeffersontown, KY	Series 2000 - A1	March 2016	February 2030
2000 Trust Estate	City of Jeffersontown, KY	Series 2000 - A2	March 2016	April 2030
2002 Trust Estate	City of Newport, KY	Series 2002 - A1	February 2016	April 2032
2002 Trust Estate	City of Newport, KY	Series 2002 - A2	February 2016	October 2032
2002A Trust Estate	City of Fort Mitchell, KY	2002 Series A - A1	November 2015	August 2032
2002A Trust Estate	City of Fort Mitchell, KY	2002 Series A - A2	November 2015	August 2030
2004A Trust Estate	City of Morehead, KY	Series 2004 A - A1	April 2016	July 2034
2004A Trust Estate	City of Morehead, KY	Series 2004 A - A2	April 2016	August 2034
2006A Trust Estate	City of Richmond, KY	2006 Series A - A1	February 2016	April 2028
2006A Trust Estate	City of Richmond, KY	2006 Series A - A2	February 2016	March 2036
2008A Trust Estate	City of Williamstown, KY	2008 Series A - A1	December 2015	August 2033
2008A Trust Estate	City of Williamstown, KY	2008 Series A - A2	December 2015	June 2038
2008B Trust Estate	City of Williamstown, KY	2008 Series B - A1	March 2016	May 2031
2008B Trust Estate	City of Williamstown, KY	2008 Series B - A2	March 2016	July 2034

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.

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:

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

## 2. Summary of Significant Accounting Policies, continued

### 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, 2018 and 2017 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.

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. 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 and the participants' share of administrative, credit, issue, and fiduciary fees of the lease programs.

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

## 2. Summary of Significant Accounting Policies, continued

### Costs of Debt Issuance

Costs of debt issuance related to the bond issuance are capitalized and amortized over the life of the related bond issues using the straight line method. As part of the 2016 bond pools restructuring (see Note 1), originally capitalized debt issuance costs were written off as loss on early extinguishment and \$682,519 of new debt issuance costs were capitalized. Amortization expense of bond issuance costs for both of the years ended June 30, 2018 and 2017 and for each of the next five years are as follows:

2000 Trust Estate	\$	6,114
2002 Trust Estate		5,614
2002A Trust Estate		5,423
2004A Trust Estate		4,657
2006A Trust Estate		4,388
2008A Trust Estate		4,289
2008B Trust Estate		<u>5,411</u>
	\$	<u>35,896</u>

### 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.

### Deferred Issuance Costs

As the participating members originate leases in the Lease Program, the issuance costs they pay related to those leases are deferred and amortized to income straight-line over the life of the related lease.

### 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.

### Reclassification

During the restructuring of the 2004A and 2008B pools in 2016, a \$101,883 transfer within the pools should have been recorded as a contribution from excess funds in the Program Discretionary Account and not as a Due to/Due from within the pools consolidated statements. The beginning net assets balances of both pools have been restated by \$101,883. This reclassification had no effect to the Funding Trust's total net assets.

# KENTUCKY LEAGUE OF CITIES FUNDING TRUST LEASE PROGRAM REVENUE BONDS

Notes to the Combined Financial Statements, continued

## 2. Summary of Significant Accounting Policies, continued

### 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 3, 2019, the date on which the combined financial statements were available to be issued. No material subsequent events were identified.

## 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' program administration agreements.

<u>Trust Estate</u>	<u>Date of Execution</u>
2000 Trust Estate	March 2000
2002 Trust Estate	April 2002
2002A Trust Estate	October 2002
2004A Trust Estate	June 2004
2006A Trust Estate	March 2006
2008A Trust Estate	July 2008
2008B Trust Estate	December 2008

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' 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.

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

Notes to the Combined Financial Statements, continued

### 3. Contractual Agreements, continued

#### Trustee Services

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

<u>Trust Estate</u>	<u>Trustee</u>	<u>Date of Trust Agreement</u>	<u>Trustee Fee</u>
2000 Trust Estate	U.S. Bank National Assn.	March 2016	\$700 per lease payable in arrears
2002 Trust Estate	Huntington National Bank	February 2016	\$250 per lease payable in advance
2002A Trust Estate	Huntington National Bank	November 2015	\$250 per lease payable in advance
2004A Trust Estate	U.S. Bank National Assn.	April 2016	\$700 per lease payable in arrears
2006A Trust Estate	Bank of New York Mellon	February 2016	\$300-\$1,000 per lease outstanding
2008A Trust Estate	Bank of New York Mellon	December 2015	\$200-\$1,500 per lease outstanding
2008B Trust Estate	U.S. Bank National Assn.	March 2016	\$700 per lease payable in arrears

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.

### 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:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

## 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 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:

#### Interest Rate Exchange Agreements

At the direction of the respective lessee, the Trustees have entered into interest rate exchange agreements 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). The Trust Estates' interest rate exchanges, measured at fair value, were an unfavorable \$4,997,845 and \$7,452,240, as of June 30, 2018 and 2017, respectively.

### 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.

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

Notes to the Combined Financial Statements, continued

### 5. Concentrations of Credit Risk, continued

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 \$14,412,068 and \$15,159,327 as of June 30, 2018 and 2017, respectively, representing 19% and 18% of total lease agreement receivables at each year end. Lease agreement receivables from four additional lessees represent 6% (one lease), 7% (two leases), and 10% (one lease) of total lease agreement receivables as of June 30, 2018. Lease agreement receivables from four additional lessees represent 6% (one lease), 7% (two leases), and 9% (one lease) of total lease agreement receivables as of June 30, 2017.

### 6. Trust Estate Accounts

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

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

Notes to the Combined Financial Statements, continued

**6. Trust Estate Accounts, continued**

Bond Proceeds Account

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

	<b>Project Account</b>	<b>Expense Account</b>	<b>Revenue Account</b>	<b>Debt Service Reserve Account</b>	<b>Total</b>
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

Project Account

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

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

Redemption Account

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



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

Notes to the Combined Financial Statements, continued

### 6. Trust Estate Accounts, continued

#### Revenue Account

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

#### Expense Account

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

#### Principal and Interest Account

The principal and interest account is an internal account of the Trustee that is used to capture both principal and lease payments.

#### Program Discretionary Fund Account

This account holds funds identified by the Program Administrator as being excess funds. Monies in the Program Discretionary Fund Account are disbursed on the direction of the Funding Trust for purposes specified by the Funding Trust and, ultimately, are not a part of the individual Trust Estates.

#### 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).

#### Rebate Account

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

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

Notes to the Combined Financial Statements, continued

**6. Trust Estate Accounts, continued**

Fixed Lessee Fund Account

This account is used to hold those leases that have swap agreements.

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

<b>2000 Trust Estate</b>	<b><u>2018</u></b>	<b><u>2017</u></b>
	<b>Cash and Cash Equivalents</b>	<b>Cash and Cash Equivalents</b>
Redemption Account	\$ 111,752	\$ 108,382
Revenue Account	<u>32,815</u>	<u>15,745</u>
	<b><u>\$ 144,567</u></b>	<b><u>\$ 124,127</u></b>
<b>2002 Trust Estate</b>	<b><u>Cash and Cash Equivalents</u></b>	<b><u>Cash and Cash Equivalents</u></b>
Redemption Account	\$ 22,793	\$ 22,184
Revenue Account	<u>26,917</u>	<u>16,811</u>
	<b><u>\$ 49,710</u></b>	<b><u>\$ 38,995</u></b>
<b>2002A Trust Estate</b>	<b><u>Cash and Cash Equivalents</u></b>	<b><u>Cash and Cash Equivalents</u></b>
Redemption Account	\$ 78,343	\$ 76,403
Revenue Account	<u>43,593</u>	<u>20,765</u>
	<b><u>\$ 121,936</u></b>	<b><u>\$ 97,168</u></b>
<b>2004A Trust Estate</b>	<b><u>Cash and Cash Equivalents</u></b>	<b><u>Cash and Cash Equivalents</u></b>
Redemption Account	\$ 67,709	\$ 65,357
Revenue Account	<u>112,405</u>	<u>50,750</u>
	<b><u>\$ 180,114</u></b>	<b><u>\$ 116,107</u></b>

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

Notes to the Combined Financial Statements, continued

**6. Trust Estate Accounts, continued**

**2006A Trust Estate**

	<u>Cash and Cash Equivalents</u>	<u>Cash and Cash Equivalents</u>
Redemption Account	\$ 80,962	\$ 195,461
Revenue Account	<u>95,295</u>	<u>83,767</u>
	<u>\$ 176,257</u>	<u>\$ 279,228</u>

**2008A Trust Estate**

	<u>Cash and Cash Equivalents</u>	<u>Cash and Cash Equivalents</u>
Redemption Account	\$ 117,761	\$ 113,002
Revenue Account	<u>95,538</u>	<u>95,144</u>
	<u>\$ 213,299</u>	<u>\$ 208,146</u>

**2008B Trust Estate**

	<u>Cash and Cash Equivalents</u>	<u>Cash and Cash Equivalents</u>
Redemption Account	\$ 86,879	\$ 111,804
Revenue Account	<u>139,364</u>	<u>152,936</u>
	<u>\$ 226,243</u>	<u>\$ 264,740</u>

**Total Combined Balances**

	<u>Cash and Cash Equivalents</u>	<u>Cash and Cash Equivalents</u>
Redemption Account	\$ 566,199	\$ 692,593
Revenue Account	<u>545,927</u>	<u>435,918</u>
	<u>\$ 1,112,126</u>	<u>\$ 1,128,511</u>

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

Notes to the Combined Financial Statements, continued

**6. Trust Estate Accounts, continued**

	<u>2018</u>		<u>2017</u>
	<u>Program Discretionary Fund Account</u>		<u>Program Discretionary Fund Account</u>
2000 Trust Estate	\$ 281	\$	36,585
2002 Trust Estate	580		23,405
2002A Trust Estate	518		172,749
2004A Trust Estate	303		60,000
2006A Trust Estate	1,259		91,262
2008A Trust Estate	57		-
2008B Trust Estate	<u>760</u>		<u>75,624</u>
	<u>\$ 3,758</u>	\$	<u>459,625</u>

As of June 30, 2018 and 2017, 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:

<u>Trust Estate</u>	<u>Investment</u>	<u>Amount Invested</u>	
		<u>June 30, 2018</u>	<u>June 30, 2017</u>
2000 Trust Estate	First American Gov't Obligation Fund	\$ 144,848	\$ 160,712
2002 Trust Estate	Huntington Protected Deposit Account	50,290	62,400
2002A Trust Estate	Huntington Protected Deposit Account	122,454	269,917
2004A Trust Estate	First American Gov't Obligation Fund	180,417	176,107
2006A Trust Estate	Fidelity Institutional Government Fund	177,516	370,490
2008A Trust Estate	Fidelity Institutional Government Fund	213,356	208,146
2008B Trust Estate	First American Gov't Obligation Fund	<u>227,003</u>	<u>340,364</u>
		<u>\$ 1,115,884</u>	<u>\$ 1,588,136</u>

**7. Lease Agreement Receivables**

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

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

Notes to the Combined Financial Statements, continued

**7. Lease Agreement Receivables, continued**

At June 30, 2018 and 2017, the outstanding lease principal amounts are as follows:

	Lease Principal Outstanding as of	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
2000 Trust Estate	\$ 4,385,190	\$ 5,261,298
2002 Trust Estate	4,294,244	4,504,301
2002A Trust Estate	5,428,591	6,751,443
2004A Trust Estate	18,703,053	19,501,544
2006A Trust Estate	19,079,578	20,437,615
2008A Trust Estate	13,731,994	15,135,225
2008B Trust Estate	<u>11,076,791</u>	<u>12,216,975</u>
	\$ <u>76,699,441</u>	\$ <u>83,808,401</u>

As described in Note 1, each pool was split into two different bonds during the restructure: Series A1 and Series A2. The outstanding lease principal amounts for each bond at June 30, 2018 are as follows:

	<u>A1</u>	<u>A2</u>	<u>Total</u>
2000 Trust Estate	\$ 3,117,225	\$ 1,267,965	\$ 4,385,190
2002 Trust Estate	1,100,000	3,194,244	4,294,244
2002A Trust Estate	3,772,778	1,655,813	5,428,591
2004A Trust Estate	7,784,562	10,918,491	18,703,053
2006A Trust Estate	316,511	18,763,067	19,079,578
2008A Trust Estate	1,868,330	11,863,664	13,731,994
2008B Trust Estate	<u>7,758,811</u>	<u>3,317,980</u>	<u>11,076,791</u>
	\$ <u>25,718,217</u>	\$ <u>50,981,224</u>	\$ <u>76,699,441</u>

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

Notes to the Combined Financial Statements, continued

**7. Lease Agreement Receivables, continued**

Future principal payments required under the lease agreement receivables for Series A1 at June 30, 2018 are as follows:

	Year Ending June 30						
	2019	2020	2021	2022	2023	Thereafter	Total
2000 Trust Estate	\$ 709,462	\$ 730,407	\$ 531,389	\$ 147,408	\$ 148,467	\$ 850,092	\$ 3,117,225
2002 Trust Estate	60,000	60,000	65,000	75,000	80,000	760,000	1,100,000
2002A Trust Estate	411,305	420,831	429,564	404,901	419,312	1,686,865	3,772,778
2004A Trust Estate	689,787	713,010	738,179	763,146	789,346	4,091,094	7,784,562
2006A Trust Estate	55,537	45,848	46,673	48,615	37,604	82,234	316,511
2008A Trust Estate	191,078	197,022	203,405	209,766	216,413	850,646	1,868,330
2008B Trust Estate	<u>858,127</u>	<u>779,905</u>	<u>800,145</u>	<u>828,168</u>	<u>857,315</u>	<u>3,635,151</u>	<u>7,758,811</u>
	<u>\$ 2,975,296</u>	<u>\$ 2,947,023</u>	<u>\$ 2,814,355</u>	<u>\$ 2,477,004</u>	<u>\$ 2,548,457</u>	<u>\$ 11,956,082</u>	<u>\$ 25,718,217</u>

Future principal payments required under the lease agreement receivables for Series A2 at June 30, 2018 are as follows:

	Year Ending June 30						
	2019	2020	2021	2022	2023	Thereafter	Total
2000 Trust Estate	\$ 158,540	\$ 161,351	\$ 184,298	\$ 127,386	\$ 70,622	\$ 565,768	\$ 1,267,965
2002 Trust Estate	157,735	165,805	174,287	183,204	192,578	2,320,635	3,194,244
2002A Trust Estate	463,694	187,009	191,948	177,139	182,594	453,429	1,655,813
2004A Trust Estate	202,621	939,718	971,515	1,002,774	1,035,650	6,766,213	10,918,491
2006A Trust Estate	879,235	919,974	966,847	1,012,063	1,036,245	13,948,703	18,763,067
2008A Trust Estate	1,139,911	1,107,749	1,158,457	1,210,099	1,264,531	5,982,917	11,863,664
2008B Trust Estate	<u>210,381</u>	<u>218,051</u>	<u>226,339</u>	<u>234,688</u>	<u>243,467</u>	<u>2,185,054</u>	<u>3,317,980</u>
	<u>\$ 3,212,117</u>	<u>\$ 3,699,657</u>	<u>\$ 3,873,691</u>	<u>\$ 3,947,353</u>	<u>\$ 4,025,687</u>	<u>\$ 32,222,719</u>	<u>\$ 50,981,224</u>

**8. Bonds Payable**

As described in Note 1, the Issuers issued fourteen variable rate bonds in the amounts of the related leases outstanding. The bonds are supplemental trust indentures and are between the various Issuers, US Bank and the Funding Trust securing the Bonds (the Trust Indentures). The Trust Indentures are adjustable interest rate bonds adjustable each Wednesday. The interest rate is equal to the sum of the Applicable Spread plus the Securities Industry & Financial Markets Association (SIFMA) Index (as defined in the Trust Indentures). Applicable Spread means, for (i) Series A1 Bonds, (A) from the Current Conversion Date to but not including the third anniversary of the Current Conversion Date, eighty-seven basis points (0.87%, 1.14% for Williamstown B), and (B) from and after the third anniversary of the Current Conversion Date, one hundred twenty-five basis points (1.25%, 1.75% for Williamstown B) until the Initial Mandatory Tender Date and thereafter as provided in the Trust Indenture and (ii) Series A2 Bonds, fifty-three basis points (0.53%, 0.90% for Williamstown B) until the Initial Mandatory Tender Date and thereafter as provided in the Indenture.

**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	Monthly, 1st business day
2002 Trust Estate	Monthly, 1st business day
2002A Trust Estate	Monthly, 1st business day
2004A Trust Estate	Monthly, 1st business day
2006A Trust Estate	Monthly, 1st business day
2008A Trust Estate	Monthly, 1st business day
2008B Trust Estate	Monthly, 1st business day

During the year ended June 30, 2018, the variable interest rate on the bonds ranged from 1.65% to 2.89% for the Series A1 Bonds, and 1.30% to 2.62% for the Series A2 Bonds.

At June 30, 2018 and 2017, the balances outstanding on the bonds were as follows:

<u>Trust Estate</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
2000 Trust Estate	\$ 4,496,942	\$ 5,369,626
2002 Trust Estate	4,317,037	4,526,472
2002A Trust Estate	5,506,894	6,827,785
2004A Trust Estate	18,770,763	19,566,901
2006A Trust Estate	19,157,902	20,544,966
2008A Trust Estate	13,849,755	15,248,132
2008B Trust Estate	<u>11,163,669</u>	<u>12,327,471</u>
	<u>\$ 77,262,962</u>	<u>\$ 84,411,353</u>

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

Notes to the Combined Financial Statements, continued

### 8. Bonds Payable, continued

The balances outstanding for each at June 30, 2018 are as follows:

Trust Estate	A1	A2	Total
2000 Trust Estate	\$ 3,224,221	\$ 1,272,721	\$ 4,496,942
2002 Trust Estate	1,110,000	3,207,037	4,317,037
2002A Trust Estate	3,798,259	1,708,635	5,506,894
2004A Trust Estate	7,841,309	10,929,454	18,770,763
2006A Trust Estate	324,824	18,833,078	19,157,902
2008A Trust Estate	1,884,059	11,965,696	13,849,755
2008B Trust Estate	7,828,642	3,335,027	11,163,669
	\$ 26,011,314	\$ 51,251,648	\$ 77,262,962

### 9. Interest Rate Exchange Agreements

The interest rate exchange agreements, entered 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 2018 and 2017, the Trust Estates made net settlement payments under these exchanges as follows:

Trust Estate	Net Settlement Payments as of June 30,	
	<u>2018</u>	<u>2017</u>
2000 Trust Estate	\$ 41,330	\$ 53,139
2002 Trust Estate	92,253	119,048
2002A Trust Estate	56,622	86,077
2004A Trust Estate	297,311	351,689
2006A Trust Estate	572,761	639,244
2008A Trust Estate	281,118	367,608
2008B Trust Estate	<u>74,139</u>	<u>105,876</u>
	<u>\$ 1,415,534</u>	<u>\$ 1,722,681</u>

The number of interest rate exchange agreements and the respective counterparties for each Trust Estate as of June 30, 2018 and 2017 are listed below:

Trust Estate	Counterparty	Number of Agreements as of	
		<u>June 30, 2018</u>	<u>June 30, 2017</u>
2000 Trust Estate	Bank of America Merrill Lynch	1	1
2000 Trust Estate	U.S. Bank	1	1
2002 Trust Estate	U.S. Bank	1	1
2002A Trust Estate	Fifth Third Bank	1	2
2002A Trust Estate	U.S. Bank	6	6
2004A Trust Estate	U.S. Bank	3	3
2006A Trust Estate	U.S. Bank	5	10
2008A Trust Estate	U.S. Bank	5	5
2008B Trust Estate	U.S. Bank	<u>4</u>	<u>5</u>
		<u>27</u>	<u>34</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, 2018 and 2017.

Income Statement Classification	Liability Derivatives for Fair Value Hedging Activities					
	Year ended June 30, 2018			Year ended June 30, 2017		
	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	\$ -	\$ 1,415,534	\$ -	\$ -	\$ 1,722,681	\$ -
Interest expense	(1,415,534)	-	-	(1,722,681)	-	-
	As of June 30, 2018			As of June 30, 2017		
Balance Sheet Classification	Class of Derivative	Fair Value	Class of Derivative	Fair Value		
Interest rate exchange	Interest rate contracts	\$ (4,997,845)	Interest rate contracts	\$ (7,452,240)		
Lease agreement receivables unrealized appreciation (Hedged Asset)	N/A	<u>4,997,845</u>	N/A	<u>7,452,240</u>		
Cumulative realized gain from ineffectiveness	N/A	<u>\$ -</u>	N/A	<u>\$ -</u>		

**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

### 11. Related Party Transactions

The Trust Estates pay administrative fees to the Program Administrator. During the years ended June 30, 2018 and 2017, administrative fees paid to the Program Administrator included in administrative and trustee fees in the accompanying combined statements of activities were \$185,383 and \$201,320, respectively. No administrative fees were included in accounts payable at June 30, 2018 and 2017.

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 \$2,241,115 and \$2,545,365 as of June 30, 2018 and 2017, respectively.

In March 2018, \$700,000 of program discretionary funds were transferred to the Program Administrator.

**SUPPLEMENTARY INFORMATION**

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

Combining Statement of Financial Position

June 30, 2018

	<u>2000</u>	<u>2002</u>	<u>2002A</u>	<u>2004A</u>	<u>2006A</u>	<u>2008A</u>	<u>2008B</u>	<u>Total</u>
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 144,567	\$ 49,710	\$ 121,936	\$ 180,114	\$ 176,257	\$ 213,299	\$ 226,243	\$ 1,112,126
Program discretionary fund account	281	580	518	303	1,259	57	760	3,758
Accrued investment income receivable	93	55	117	155	142	159	194	915
Lease agreement receivables	4,385,190	4,294,244	5,428,591	18,703,053	19,079,578	13,731,994	11,076,791	76,699,441
Lease agreement receivables-unrealized appreciation in fair value	107,517	383,272	94,081	1,066,741	2,245,261	861,215	239,758	4,997,845
Costs of debt issuance, net	<u>73,373</u>	<u>84,205</u>	<u>81,344</u>	<u>79,172</u>	<u>78,979</u>	<u>85,776</u>	<u>91,982</u>	<u>574,831</u>
 Total assets	 <u>\$ 4,711,021</u>	 <u>\$ 4,812,066</u>	 <u>\$ 5,726,587</u>	 <u>\$ 20,029,538</u>	 <u>\$ 21,581,476</u>	 <u>\$ 14,892,500</u>	 <u>\$ 11,635,728</u>	 <u>\$ 83,388,916</u>
 <b>Liabilities and Net Deficit</b>								
Liabilities:								
Accounts payable and other accrued liabilities	\$ 2,180	\$ 487	\$ 7,005	\$ 20,979	\$ 16,445	\$ 17,280	\$ 5,425	\$ 69,801
Accrued interest payable - bonds	8,109	6,621	9,851	30,618	26,770	20,314	22,922	125,205
Interest rate exchange - liability	107,517	383,272	94,081	1,066,741	2,245,261	861,215	239,758	4,997,845
Deferred issuance costs	151,309	140,580	163,534	338,789	416,237	475,815	468,765	2,155,029
Bonds payable	<u>4,496,942</u>	<u>4,317,037</u>	<u>5,506,894</u>	<u>18,770,763</u>	<u>19,157,902</u>	<u>13,849,755</u>	<u>11,163,669</u>	<u>77,262,962</u>
 Total liabilities	 4,766,057	 4,847,997	 5,781,365	 20,227,890	 21,862,615	 15,224,379	 11,900,539	 84,610,842
Net deficit, unrestricted	<u>(55,036)</u>	<u>(35,931)</u>	<u>(54,778)</u>	<u>(198,352)</u>	<u>(281,139)</u>	<u>(331,879)</u>	<u>(264,811)</u>	<u>(1,221,926)</u>
 Total liabilities and net deficit	 <u>\$ 4,711,021</u>	 <u>\$ 4,812,066</u>	 <u>\$ 5,726,587</u>	 <u>\$ 20,029,538</u>	 <u>\$ 21,581,476</u>	 <u>\$ 14,892,500</u>	 <u>\$ 11,635,728</u>	 <u>\$ 83,388,916</u>

See report of independent auditors.

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

### Combining Statement of Financial Position

June 30, 2017

	<u>2000</u>	<u>2002</u>	<u>2002A</u>	<u>2004A</u>	<u>2006A</u>	<u>2008A</u>	<u>2008B</u>	<u>Total</u>
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 124,127	\$ 38,995	\$ 97,168	\$ 116,107	\$ 279,228	\$ 208,146	\$ 264,740	\$ 1,128,511
Program discretionary fund account	36,585	23,405	172,749	60,000	91,262	-	75,624	459,625
Accrued investment income receivable	32	14	56	56	88	57	87	390
Accrued interest and fees receivable - leases	-	-	-	-	50	-	-	50
Lease agreement receivables	5,261,298	4,504,301	6,751,443	19,501,544	20,437,615	15,135,225	12,216,975	83,808,401
Lease agreement receivables-unrealized appreciation in fair value	169,294	546,454	167,681	1,576,220	3,245,644	1,366,983	379,964	7,452,240
Costs of debt issuance, net	<u>79,487</u>	<u>89,819</u>	<u>86,767</u>	<u>83,829</u>	<u>83,367</u>	<u>90,065</u>	<u>97,393</u>	<u>610,727</u>
 Total assets	 <u>\$ 5,670,823</u>	 <u>\$ 5,202,988</u>	 <u>\$ 7,275,864</u>	 <u>\$ 21,337,756</u>	 <u>\$ 24,137,254</u>	 <u>\$ 16,800,476</u>	 <u>\$ 13,034,783</u>	 <u>\$ 93,459,944</u>
 <b>Liabilities and Net Assets (Deficit)</b>								
Liabilities:								
Accounts payable and other accrued liabilities	\$ 2,333	\$ 313	\$ 4,978	\$ 11,578	\$ 9,500	\$ 10,723	\$ 5,309	\$ 44,734
Accrued interest payable - bonds	7,186	5,276	8,850	24,097	22,264	17,143	19,517	104,333
Interest rate exchange - liability	169,294	546,454	167,681	1,576,220	3,245,644	1,366,983	379,964	7,452,240
Deferred issuance costs	163,918	149,953	174,436	358,718	439,362	499,606	496,339	2,282,332
Bonds payable	<u>5,369,626</u>	<u>4,526,472</u>	<u>6,827,785</u>	<u>19,566,901</u>	<u>20,544,966</u>	<u>15,248,132</u>	<u>12,327,471</u>	<u>84,411,353</u>
 Total liabilities	 5,712,357	 5,228,468	 7,183,730	 21,537,514	 24,261,736	 17,142,587	 13,228,600	 94,294,992
 Net assets (deficit), unrestricted	 <u>(41,534)</u>	 <u>(25,480)</u>	 <u>92,134</u>	 <u>(199,758)</u>	 <u>(124,482)</u>	 <u>(342,111)</u>	 <u>(193,817)</u>	 <u>(835,048)</u>
 Total liabilities and net assets (deficit)	 <u>\$ 5,670,823</u>	 <u>\$ 5,202,988</u>	 <u>\$ 7,275,864</u>	 <u>\$ 21,337,756</u>	 <u>\$ 24,137,254</u>	 <u>\$ 16,800,476</u>	 <u>\$ 13,034,783</u>	 <u>\$ 93,459,944</u>

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

Combining Statement of Activities

Year ended June 30, 2018

	<u>2000</u>	<u>2002</u>	<u>2002A</u>	<u>2004A</u>	<u>2006A</u>	<u>2008A</u>	<u>2008B</u>	<u>Total</u>
Revenue:								
Income from lease agreement receivables	\$ 167,193	\$ 188,651	\$ 205,771	\$ 741,242	\$ 943,695	\$ 589,545	\$ 431,152	\$ 3,267,249
Amortization of deferred issuance costs	12,609	9,373	10,902	19,929	23,125	23,791	27,574	127,303
Investment and other income	<u>577</u>	<u>411</u>	<u>1,087</u>	<u>1,097</u>	<u>870</u>	<u>899</u>	<u>1,476</u>	<u>6,417</u>
Total revenues	180,379	198,435	217,760	762,268	967,690	614,235	460,202	3,400,969
Expenses:								
Administrative and trustee fees	18,164	11,760	16,605	56,948	18,842	26,151	36,913	185,383
Professional and other fees	-	-	-	-	5,000	-	-	5,000
Bond interest expense	91,773	76,259	112,522	341,946	327,356	242,445	253,733	1,446,034
Swap interest expense	41,330	92,253	56,622	297,311	572,761	281,118	74,139	1,415,534
Amortization expense	<u>6,114</u>	<u>5,614</u>	<u>5,423</u>	<u>4,657</u>	<u>4,388</u>	<u>4,289</u>	<u>5,411</u>	<u>35,896</u>
Total expenses	<u>157,381</u>	<u>185,886</u>	<u>191,172</u>	<u>700,862</u>	<u>928,347</u>	<u>554,003</u>	<u>370,196</u>	<u>3,087,847</u>
Changes in net assets (deficit)	22,998	12,549	26,588	61,406	39,343	60,232	90,006	313,122
Net assets (deficit), beginning of year	(41,534)	(25,480)	92,134	(199,758)	(124,482)	(342,111)	(193,817)	(835,048)
Transfer of program discretionary funds to the Program Administrator (Note 11)	<u>(36,500)</u>	<u>(23,000)</u>	<u>(173,500)</u>	<u>(60,000)</u>	<u>(196,000)</u>	<u>(50,000)</u>	<u>(161,000)</u>	<u>(700,000)</u>
Net deficit, end of year	\$ <u>(55,036)</u>	\$ <u>(35,931)</u>	\$ <u>(54,778)</u>	\$ <u>(198,352)</u>	\$ <u>(281,139)</u>	\$ <u>(331,879)</u>	\$ <u>(264,811)</u>	\$ <u>(1,221,926)</u>

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

Combining Statement of Activities

Year ended June 30, 2017

	<u>2000</u>	<u>2002</u>	<u>2002A</u>	<u>2004A</u>	<u>2006A</u>	<u>2008A</u>	<u>2008B</u>	<u>Total</u>
Revenue:								
Income from lease agreement receivables	\$ 162,339	\$ 178,626	\$ 220,700	\$ 677,405	\$ 872,744	\$ 593,091	\$ 416,654	\$ 3,121,559
Amortization of deferred issuance costs	12,609	9,372	10,902	19,929	23,124	23,791	27,574	127,301
Investment income and other income	150	200	2,014	232	379	235	419	3,629
Net realized losses	<u>(11)</u>	<u>-</u>	<u>-</u>	<u>(236)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(247)</u>
Total revenues, net of loss	175,087	188,198	233,616	697,330	896,247	617,117	444,647	3,252,242
Expenses:								
Administrative and trustee fees	20,189	13,208	26,956	48,335	24,653	26,898	41,081	201,320
Professional and other fees	-	-	-	-	5,822	3,572	-	9,394
Bond interest expense	89,032	59,299	112,493	266,844	273,372	205,900	241,176	1,248,116
Swap interest expense	53,139	119,048	86,077	351,689	639,244	367,608	105,876	1,722,681
Amortization expense	<u>6,114</u>	<u>5,614</u>	<u>5,423</u>	<u>4,657</u>	<u>4,388</u>	<u>4,289</u>	<u>5,411</u>	<u>35,896</u>
Total expenses	<u>168,474</u>	<u>197,169</u>	<u>230,949</u>	<u>671,525</u>	<u>947,479</u>	<u>608,267</u>	<u>393,544</u>	<u>3,217,407</u>
Changes in net assets (deficit)	6,613	(8,971)	2,667	25,805	(51,232)	8,850	51,103	34,835
Net assets (deficit), beginning of year	<u>(48,147)</u>	<u>(16,509)</u>	<u>89,467</u>	<u>(225,563)</u>	<u>(73,250)</u>	<u>(350,961)</u>	<u>(244,920)</u>	<u>(869,883)</u>
Net assets (deficit), end of year	<u>\$ (41,534)</u>	<u>\$ (25,480)</u>	<u>\$ 92,134</u>	<u>\$ (199,758)</u>	<u>\$ (124,482)</u>	<u>\$ (342,111)</u>	<u>\$ (193,817)</u>	<u>\$ (835,048)</u>

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

Combining Statement of Cash Flows

Year ended June 30, 2018

	<u>2000</u>	<u>2002</u>	<u>2002A</u>	<u>2004A</u>	<u>2006A</u>	<u>2008A</u>	<u>2008B</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>								
Change in net assets	\$ 22,998	\$ 12,549	\$ 26,588	\$ 61,406	\$ 39,343	\$ 60,232	\$ 90,006	\$ 313,122
Adjustments to reconcile change in net assets to net cash provided by operating activities:								
Amortization of costs of debt issuance	6,114	5,614	5,423	4,657	4,388	4,289	5,411	35,896
Amortization of deferred issuance costs	(12,609)	(9,373)	(10,902)	(19,929)	(23,125)	(23,791)	(27,574)	(127,303)
Increase (decrease) in cash due to changes in:								
Program discretionary fund account	36,304	22,825	172,231	59,697	90,003	(57)	74,864	455,867
Accrued investment income receivable	(61)	(41)	(61)	(99)	(54)	(102)	(107)	(525)
Accrued interest and fees receivable - leases	-	-	-	-	50	-	-	50
Accounts payable and other accrued expenses	(153)	174	2,027	9,401	6,945	6,557	116	25,067
Accrued interest payable - bonds	<u>923</u>	<u>1,345</u>	<u>1,001</u>	<u>6,521</u>	<u>4,506</u>	<u>3,171</u>	<u>3,405</u>	<u>20,872</u>
Net cash provided by operating activities	53,516	33,093	196,307	121,654	122,056	50,299	146,121	723,046
<b>Cash flows from investing activities:</b>								
Proceeds from lease agreements	<u>876,108</u>	<u>210,057</u>	<u>1,322,852</u>	<u>798,491</u>	<u>1,358,037</u>	<u>1,403,231</u>	<u>1,140,184</u>	<u>7,108,960</u>
Net cash provided by investing activities	876,108	210,057	1,322,852	798,491	1,358,037	1,403,231	1,140,184	7,108,960
<b>Cash flows from financing activities:</b>								
Principal payments on bonds	(872,684)	(209,435)	(1,320,891)	(796,138)	(1,387,064)	(1,398,377)	(1,163,802)	(7,148,391)
Transfer of program discretionary funds to the program administrator (Note 11)	<u>(36,500)</u>	<u>(23,000)</u>	<u>(173,500)</u>	<u>(60,000)</u>	<u>(196,000)</u>	<u>(50,000)</u>	<u>(161,000)</u>	<u>(700,000)</u>
Net cash used in financing activities	<u>(909,184)</u>	<u>(232,435)</u>	<u>(1,494,391)</u>	<u>(856,138)</u>	<u>(1,583,064)</u>	<u>(1,448,377)</u>	<u>(1,324,802)</u>	<u>(7,848,391)</u>
Net increase (decrease) in cash and cash equivalents	20,440	10,715	24,768	64,007	(102,971)	5,153	(38,497)	(16,385)
Cash and cash equivalents, beginning of year	<u>124,127</u>	<u>38,995</u>	<u>97,168</u>	<u>116,107</u>	<u>279,228</u>	<u>208,146</u>	<u>264,740</u>	<u>1,128,511</u>
Cash and cash equivalents, end of year	<u>\$ 144,567</u>	<u>\$ 49,710</u>	<u>\$ 121,936</u>	<u>\$ 180,114</u>	<u>\$ 176,257</u>	<u>\$ 213,299</u>	<u>\$ 226,243</u>	<u>\$ 1,112,126</u>

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

Combining Statement of Cash Flows

Year ended June 30, 2017

	<u>2000</u>	<u>2002</u>	<u>2002A</u>	<u>2004A</u>	<u>2006A</u>	<u>2008A</u>	<u>2008B</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>								
Change in net assets	\$ 6,613	\$ (8,971)	\$ 2,667	\$ 25,805	\$ (51,232)	\$ 8,850	\$ 51,103	\$ 34,835
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:								
Amortization of costs of debt issuance	6,114	5,614	5,423	4,657	4,388	4,289	5,411	35,896
Amortization of deferred issuance costs	(12,609)	(9,372)	(10,902)	(19,929)	(23,124)	(23,791)	(27,574)	(127,301)
Increase (decrease) in cash due to changes in:								
Program discretionary fund account	(30,008)	(88)	(45,480)	(60,000)	2,242	-	(1,336)	(134,670)
Accrued investment income receivable	(32)	(3)	(31)	(55)	(86)	(56)	(87)	(350)
Accrued interest and fees receivable - leases	15,887	13,260	33,938	48,290	67,344	43,959	29,804	252,482
Prepays and other current assets	-	583	-	-	-	-	-	583
Accounts payable and other accrued expenses	(8,472)	(5,845)	(27,410)	(47,712)	(61,370)	(42,658)	(17,984)	(211,451)
Accrued interest payable - bonds	<u>7,186</u>	<u>1,120</u>	<u>(3,068)</u>	<u>5,590</u>	<u>22,264</u>	<u>3,458</u>	<u>19,517</u>	<u>56,067</u>
Net cash provided by (used in) operating activities	(15,321)	(3,702)	(44,863)	(43,354)	(39,574)	(5,949)	58,854	(93,909)
<b>Cash flows from investing activities:</b>								
Proceeds from lease agreements	<u>873,236</u>	<u>245,029</u>	<u>6,911,992</u>	<u>836,831</u>	<u>1,356,131</u>	<u>1,345,483</u>	<u>1,644,871</u>	<u>13,213,573</u>
Net cash provided by investing activities	873,236	245,029	6,911,992	836,831	1,356,131	1,345,483	1,644,871	13,213,573
<b>Cash flows from financing activities:</b>								
Principal payments on bonds	<u>(868,216)</u>	<u>(299,419)</u>	<u>(6,972,810)</u>	<u>(852,005)</u>	<u>(1,360,197)</u>	<u>(1,340,923)</u>	<u>(1,657,269)</u>	<u>(13,350,839)</u>
Net cash used in financing activities	<u>(868,216)</u>	<u>(299,419)</u>	<u>(6,972,810)</u>	<u>(852,005)</u>	<u>(1,360,197)</u>	<u>(1,340,923)</u>	<u>(1,657,269)</u>	<u>(13,350,839)</u>
Net increase (decrease) in cash and cash equivalents	(10,301)	(58,092)	(105,681)	(58,528)	(43,640)	(1,389)	46,456	(231,175)
Cash and cash equivalents, beginning of year	<u>134,428</u>	<u>97,087</u>	<u>202,849</u>	<u>174,635</u>	<u>322,868</u>	<u>209,535</u>	<u>218,284</u>	<u>1,359,686</u>
Cash and cash equivalents, end of year	<u>\$ 124,127</u>	<u>\$ 38,995</u>	<u>\$ 97,168</u>	<u>\$ 116,107</u>	<u>\$ 279,228</u>	<u>\$ 208,146</u>	<u>\$ 264,740</u>	<u>\$ 1,128,511</u>

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