

**Kentucky Association of Counties Leasing Trust
and Subsidiary**

Consolidated Financial Statements

Years Ended June 30, 2022 and 2021

**Kentucky Association of Counties Leasing Trust
and Subsidiary
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Years Ended June 30, 2022 and 2021**

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Independent Auditor's Report

To the Board of Directors
Kentucky Association of Counties Leasing Trust
and Subsidiary

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kentucky Association of Counties Leasing Trust (a County Interlocal Cooperation Agreement Trust) (the "Trust") and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kentucky Association of Counties Leasing Trust and Subsidiary as of June 30, 2022 and 2021, and the results of their operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Kentucky Association of Counties Leasing Trust and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Association of Counties Leasing Trust and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Association of Counties Leasing Trust and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Association of Counties Leasing Trust and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position for June 30, 2022 and 2021, the consolidating statements of activities and changes in net assets for the years ended June 30, 2022 and 2021, and the consolidating statements of cash flows for the years ended June 30, 2022 and 2021, are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Louisville, Kentucky
October 27, 2022

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Consolidated Statements of Financial Position
June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 3,609,426	\$ 5,088,852
Trust estate investments	1,361,744	1,487,197
Leases receivable	66,340,555	73,957,336
Leases receivable - unrealized appreciation in fair value	3,488,053	10,334,361
Other receivables	540,150	611,472
Due from affiliate	37,125	70,892
Notes receivable, net	5,205,818	4,482,222
Other investments	3,283,281	3,572,705
Accrued interest receivable	-	5,187
	<u> </u>	<u> </u>
Total assets	<u>\$ 83,866,152</u>	<u>\$ 99,610,224</u>
Liabilities and net assets		
Liabilities		
Accrued interest payable	\$ 82,209	\$ 40,326
Interest rate exchanges	3,488,053	10,334,361
Other accrued expenses	337,971	487,240
Bonds payable, net	66,264,414	73,932,612
	<u> </u>	<u> </u>
Total liabilities	70,172,647	84,794,539
Net assets, unrestricted/retained earnings	<u>13,693,505</u>	<u>14,815,685</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 83,866,152</u>	<u>\$ 99,610,224</u>

See accompanying notes.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues		
Investment income	\$ 100,553	\$ 191,260
Income from leases receivable	3,455,738	3,852,475
Credit, administrative and fiduciary fees	665,162	420,441
Miscellaneous income	-	66
Net realized and unrealized (losses) gains on other investments	<u>(392,619)</u>	<u>532,003</u>
Total revenues	3,828,834	4,996,245
Expenses		
Interest	3,098,706	3,391,791
Administrative and other fees	1,462,048	1,548,994
Legal fees	143,027	130,281
Trustee fees	198,379	240,091
Sponsoring agency fees	1,000	994
Lease rebates	42,854	56,733
Miscellaneous expense	-	1,030
Claims expense and change in estimated liability for future claims	-	40,000
Provision for income taxes	<u>5,000</u>	<u>55,498</u>
Total expenses	<u>4,951,014</u>	<u>5,465,412</u>
Changes in net assets	(1,122,180)	(469,167)
Net assets at beginning of year	<u>14,815,685</u>	<u>15,284,852</u>
Net assets at end of year	<u><u>\$ 13,693,505</u></u>	<u><u>\$ 14,815,685</u></u>

See accompanying notes.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Changes in net assets	\$ (1,122,180)	\$ (469,167)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Amortization of debt issuance costs	46,673	53,934
Net realized and unrealized gains on other investments	392,619	(542,299)
Changes in		
Other receivables	71,322	(273,779)
Receivable from affiliate, net	33,767	121,911
Accrued interest receivable	5,187	18,352
Other assets	-	14,175
Accrued interest payable	41,883	(13,690)
Other accrued expenses	(149,269)	(427,976)
Deferred income taxes	-	(85,000)
	<u>(679,998)</u>	<u>(1,603,539)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Net (purchases) proceeds from trust estate investments	125,453	(30,302)
Lease repayments	7,616,781	8,823,990
Net (purchases) proceeds from other investments	(103,195)	6,017,842
Principal repayments on notes receivable	3,127,724	3,127,724
Issuance of notes receivable	<u>(3,851,320)</u>	<u>(4,944,090)</u>
	6,915,443	12,995,164
Net cash provided by investing activities		
Cash flows from financing activities		
Payments on bonds	<u>(7,714,871)</u>	<u>(8,831,102)</u>
	<u>(7,714,871)</u>	<u>(8,831,102)</u>
Net cash used in financing activities		
Net change in cash and cash equivalents	(1,479,426)	2,560,523
Cash and cash equivalents at beginning of year	<u>5,088,852</u>	<u>2,528,329</u>
Cash and cash equivalents at end of year	<u>\$ 3,609,426</u>	<u>\$ 5,088,852</u>
Supplemental disclosure		
Cash paid for interest	\$ 3,056,823	\$ 3,405,481
Non-cash investing and financing activities		
Decrease in fair value of lease receivables and related interest rate changes	(6,846,308)	(4,804,793)

See accompanying notes.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements
Years Ended June 30, 2022 and 2021

Note A - Nature of Organization and Operations

1. General: The Kentucky Association of Counties Leasing Trust (the "Leasing Trust") is a County Interlocal Cooperation Agreement Trust sponsored by the Kentucky Association of Counties ("KACo"), an association comprised of 120 Kentucky counties. KACo's purpose is to assist Kentucky county governments and special districts in fulfilling certain obligations to their constituencies. Each Kentucky county is eligible for membership in KACo. KACo's Board of Directors is made up of elected officials. The Leasing Trust was organized on November 9, 1988 to make funds available for capital improvement projects and equipment purchases by Kentucky county governments and special districts. Any public agency is eligible to participate in the Leasing Trust.

During the fiscal year ended June 30, 2006, the Leasing Trust formed a wholly-owned subsidiary Commonwealth Insurance Company, Inc. (the "Subsidiary" or "CIC"), a Kentucky domiciled captive insurance company. The Subsidiary provided county bond insurance to members of KACo. CIC premium revenue was 100% derived from Kentucky All Lines Fund ("KALF") insured. Effective July 1, 2020, KALF began providing coverage of county bond insurance and its dishonesty fidelity bond and business income/extra expense coverage directly to its members without purchasing insurance coverage from CIC. CIC was dissolved effective June 30, 2022 (see Note U).

The accompanying consolidated financial statements include the accounts of the Kentucky Association of Counties Leasing Trust and Subsidiary. All significant intercompany accounts and transactions have been eliminated. They are collectively referred to as "CoLT".

CoLT is controlled by a Board of Trustees whose members are appointed by the Board of Directors of KACo. Management is of the opinion that both KACo and CoLT are limited to transactions that would be legal for one or more Kentucky counties.

2. The Trust Estates: CoLT maintains separate trust estates (the "Trusts" or the "Trust Estates") to provide funds for CoLT's business purposes as specified in the trust indenture agreements. The trust agreements also provide for financing by contributions from participating members, if necessary. The bonds were formally issued as Money Market Municipal Multi-County Lease Revenue Bonds.

The funds can be summarized as follows:

<u>Series</u>	<u>Date of issuance</u>	<u>Sponsor</u>	<u>Original issuance amount</u>	<u>Term</u>	<u>Trustee</u>
1999 Series	December 1999	Breckinridge County	50,000,000	12/1/2029	US Bank
2001 Series	February 2001	Breckinridge County	50,000,000	3/1/2031	US Bank
2002 Series	January 2002	Breckinridge County	100,000,000	2/1/2032	US Bank
2004 Series	September 2004	Shelby County	100,000,000	9/1/2034	US Bank
2007 Series	April 2007	Christian County	50,000,000	4/1/2037	US Bank
2007B Series	August 2007	Christian County	70,000,000	8/1/2037	US Bank
2008 Series	June 2008	Christian County	30,000,000	6/1/2038	US Bank
2008 A2 Series	December 2008	Trimble County	75,000,000	12/1/2038	US Bank

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note A - Nature of Organization and Operations (Continued)

3. Basis of Presentation: The accompanying consolidated financial statements present the combined financial positions, activities and changes in net assets and cash flows for the 1999, 2001, 2002, 2004, 2007, 2007B, 2008, and 2008 A2 Trust Estates, the Subsidiary, and Program Administration. Common costs are paid from discretionary funds provided by the Trust Estates.

The consolidated financial statements of CoLT have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP. The significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

4. Distributions on Termination: Upon ultimate termination of the Trusts (no later than December 1, 2029 for the 1999 Trust Estate, no later than March 1, 2031 for the 2001 Trust Estate, no later than February 1, 2032 for the 2002 Trust Estate, no later than September 1, 2034 for the 2004 Trust Estate, no later than April 1, 2037 for the 2007 Trust Estate, no later than August 1, 2037 for the 2007B Trust Estate, no later than June 1, 2038 for the 2008 Trust Estate, and no later than December 1, 2038 for the 2008 A2 Trust Estate), any assets remaining after satisfaction of all liabilities will be transferred to Program Administration.

Note B - Contractual Agreements

1. Administrative Services: During fiscal year 2022, KACo provided administrative and management services to CoLT pursuant to contracts that became effective on July 1, 2021 and expired June 30, 2022. The agreements can be renewed or extended upon mutual agreement of the parties. These services include management, marketing, and administrative services necessary for the orderly and proper administration of CoLT. KACo bills CoLT quarterly for the cost of providing these services. These contracts were renewed for one-year effective July 1, 2022.

During fiscal year 2021, KACo provided administrative and management services to CoLT pursuant to contracts that became effective on July 1, 2020 and expired June 30, 2021.

The costs for administrative and management services are a component of administrative and other fees in the accompanying consolidated statements of activities and changes in net assets (see Note S).

2. Trustee Arrangements:

1999 Trust Indenture

Under terms of a separate trust indenture dated December 1999, US Bank acts as trustee, paying agent and registrar for the 1999 Trust Estate and, as such, holds investments, receives payments of interest and principal on leases and loans, writes checks on the 1999 Trust Estate to pay interest and principal as it becomes due on the 1999 Bonds, and maintains appropriate books and records to account for all funds established under the trust indenture. In return for these services, the trustee is paid an annual fee of \$10,000, plus other fees based on services provided.

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021**

Note B - Contractual Agreements (Continued)

2. Trustee Arrangements (Continued):

2001 Trust Indenture

Under terms of a separate trust indenture dated February 2001, US Bank acts as trustee, paying agent and registrar for the 2001 Trust Estate and, as such, holds investments, receives payments of interest and principal on leases and loans, writes checks on the 2001 Trust Estate to pay interest and principal as it becomes due on the 2001 Bonds, and maintains appropriate books and records to account for all funds established under the trust indenture. In return for these services, the trustee is paid an annual fee of \$10,000, plus .25% on funds invested in government money market funds and other fees based on services provided.

2002 Trust Indenture

Under terms of a separate trust indenture dated January 2002, US Bank acts as trustee, paying agent and registrar for the 2002 Trust Estate and, as such, holds investments, receives payments of interest and principal on leases and loans, writes checks on the 2002 Trust Estate to pay interest and principal as it becomes due on the 2002 Bonds, and maintains appropriate books and records to account for all funds established under the trust indenture. In return for these services, the trustee is paid an annual fee of \$10,000, plus \$200 per lease outstanding.

2004 Trust Indenture

Under terms of a separate trust indenture dated September 2004, US Bank acts as trustee, paying agent and registrar for the 2004 Trust Estate and, as such, holds investments, receives payments of interest and principal on leases and loans, writes checks on the 2004 Trust Estate to pay interest and principal as it becomes due on the 2004 Bonds, and maintains appropriate books and records to account for all funds established under the trust indenture. In return for these services, the trustee is paid an annual fee of \$10,000 plus \$200 per lease outstanding.

2007 Trust Indenture

Under terms of a separate trust indenture dated April 2007, US Bank acts as trustee, paying agent and registrar for the 2007 Trust Estate and, as such, holds investments, receives payments of interest and principal on leases and loans, writes checks on the 2007 Trust Estate to pay interest and principal as it becomes due on the 2007 Bonds, and maintains appropriate books and records to account for all funds established under the trust indenture. In return for these services, the trustee is paid an annual fee of \$10,000 plus \$200 per lease outstanding.

2007B Trust Indenture

Under terms of a separate trust indenture dated August 2007, US Bank acts as trustee, paying agent and registrar for the 2007B Trust Estate and, as such, holds investments, receives payments of interest and principal on leases and loans, writes checks on the 2007B Trust Estate to pay interest and principal as it becomes due on the 2007B Bonds, and maintains appropriate books and records to account for all funds established under the trust indenture. In return for these services, the trustee is paid an annual fee of \$10,000 plus \$200 per lease outstanding.

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021**

Note B - Contractual Agreements (Continued)

2. Trustee Arrangements (Continued):

2008 Trust Indenture

Under terms of a separate trust indenture dated June 2008, US Bank acts as trustee, paying agent and registrar for the 2008 Trust Estate and, as such, holds investments, receives payments of interest and principal on leases and loans, writes checks on the 2008 Trust Estate to pay interest and principal as it becomes due on the 2008 Bonds, and maintains appropriate books and records to account for all funds established under the trust indenture. In return for these services, the trustee is paid an annual fee of \$10,000 plus \$200 per lease outstanding.

2008 A2 Trust Indenture

Under terms of a separate trust indenture dated December 2008, US Bank acts as trustee, paying agent and registrar for the 2008 A2 Trust Estate and, as such, holds investments, receives payments of interest and principal on leases and loans, writes checks on the 2008 A2 Trust Estate to pay interest and principal as it becomes due on the 2008 A2 Bonds, and maintains appropriate books and records to account for all funds established under the trust indenture. In return for these services, the trustee is paid an annual fee of \$10,000 plus \$200 per lease outstanding.

3. Financial Computation Services: Compass Municipal Advisors, LLC ("CMA") performs certain financial computations pertaining to lease terms and payments. Fees paid to CMA are included in administrative fees in the accompanying consolidated statements of activities and changes in net assets.
4. Program Escrow Fund: During 2014, CoLT and US Bank entered into an escrow deposit agreement establishing a program escrow fund. This fund is maintained by US Bank (escrow agent) and is pledged as security for the bond obligations of the 1999 through 2008A2 trust estates as provided by the trust indentures. As of June 30, 2022 and 2021, the balance of the program escrow fund is \$1,082,607 and \$982,325, respectively and is included as a component of trust estate investments on the consolidated statements of financial position.
5. Interest Rate Exchange Agreements: The Trust accounts for interest rate exchange agreements in accordance with the ASC. The ASC 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.

CoLT utilizes interest rate swaps to provide fixed rate leases out of its Trust Estates without bearing interest rate risk. Under the terms of the agreements, CoLT pays to the swap counterparty the agreed to fixed rate and receives interest based upon an agreed to variable indexed rate (see below). These interest rate swap agreements have been designated by CoLT as fair value hedges of the underlying changes in the fair value of the leases receivable. The terms of the swap agreement are established to exactly match those of the underlying lease instruments (including notional amounts, payment dates, variable interest rates, etc.). Net payments made (received) under the swap agreements (settlements) are included as a component of interest expense (income). Changes in the fair value of the swap instruments, as well as changes in the fair value of the underlying lease instruments, are included as components of interest income, net. The following outlines the swap agreements in place as of June 30, 2022 and 2021.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note B - Contractual Agreements (Continued)

5. Interest Rate Exchange Agreements (Continued):

1999 Trust Estate

As of June 30, 2022, CoLT has outstanding swap contracts under a master swap agreement, executed with Merrill Lynch in December 1999, of \$1,127,000 on which CoLT pays fixed rates ranging from 6.07% to 6.17%, and receives a variable rate tied to the BMA Index. For the years ended June 30, 2022 and 2021, CoLT made settlement payments of approximately \$61,300 and \$80,000, respectively, under this agreement.

2001 Trust Estate

As of June 30, 2022, CoLT has an outstanding swap contract under a master swap agreement, executed with US Bank in February 2001, of \$1,870,000 on which CoLT pays fixed rates of 5.72% and receives a variable rate tied to the BMA Index. For the years ended June 30, 2022 and 2021, CoLT made settlement payments of approximately \$95,100 and \$120,000, respectively, under this agreement.

2002 Trust Estate

As of June 30, 2022, CoLT has outstanding swap contracts under a master swap agreement, executed with Chase in June 2002, of \$1,067,543 on which CoLT pays fixed rates ranging from 3.76% to 5.30%, and receives a variable rate tied to the One Day Municipal Paper Market rates. For the years ended June 30, 2022 and 2021, CoLT made settlement payments of approximately \$50,250 and \$63,500, respectively, under this agreement.

2004 Trust Estate

As of June 30, 2022, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in September 2004 of \$10,052,004 on which CoLT pays fixed rates ranging from 3.80% to 5.11%, and receives a variable rate tied to the BMA Index. For the years ended June 30, 2022 and 2021, CoLT made settlement payments of approximately \$413,500 and \$466,600, respectively, under this agreement.

2007 Trust Estate

As of June 30, 2022, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in May 2007 of \$9,662,663 on which CoLT pays fixed rates ranging from 4.01% to 5.46%, and receives a variable rate tied to the BMA Index. For the years ended June 30, 2022 and 2021, CoLT made settlement payments of approximately \$79,300 and \$75,500, respectively, under this agreement.

2007B Trust Estate

As of June 30, 2022, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in August 2007 of \$18,275,000 on which CoLT pays fixed rates ranging from 4.40% to 4.49%, and receives a variable rate tied to the BMA Index. For the years ended June 30, 2022 and 2021, CoLT made settlement payments of approximately \$683,500 and \$745,600, respectively, under this agreement.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note B - Contractual Agreements (Continued)

5. Interest Rate Exchange Agreements (Continued):

2008 Trust Estate

As of June 30, 2022, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in August 2008 of \$5,224,230 which CoLT pays fixed rates ranging from 4.51% and 4.73%, and receives a variable rate tied to the BMA Index. For the years ended June 30, 2022 and 2021, CoLT made settlement payments of approximately \$192,900 and \$207,500 respectively, under this agreement.

2008 A2 Trust Estate

As of June 30, 2022, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in December 2008 of \$16,227,000 on which CoLT pays fixed rates ranging from 4.39% to 6.19%, and receives a variable rate tied to the BMA Index. For the years ended June 30, 2022 and 2021, CoLT made settlement payments of approximately \$547,000 and \$620,600, respectively, under this agreement.

CoLT is exposed to credit losses in the event of non-performance by the counterparties to such interest rate exchange agreements. CoLT anticipates, however, that counterparties will be able to satisfy any obligations under the agreements. CoLT does not obtain collateral or other security to support such derivative financial instruments subject to credit risk, but the trustees monitor the credit standing of the counterparties.

Note C - Summary of Significant Accounting Policies

1. Cash and Cash Equivalents: CoLT considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. CoLT typically maintains cash on deposit at banks in excess of federally insured limits. Accordingly, at various times during the years ended June 30, 2022 and 2021, balances were uninsured and uncollateralized.
2. Investments: The ASC requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value. Accordingly, CoLT's investments are stated at fair value.

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments.

3. Use of Estimates: The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.
4. Subsequent Events: Subsequent events for CoLT have been considered through the date of the Independent Auditor's Report, which represents the date which the consolidated financial statements were available to be issued.
5. Recognition of Premium Revenues: Premiums written were earned ratably over the terms of the policies to which they relate. Premiums written related to the unexpired portion of policies in force at the statement of financial position date are recorded as unearned premiums. There are no unearned premiums at June 30, 2022 and 2021.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note C - Summary of Significant Accounting Policies (Continued)

6. Reserves for Losses and Loss Adjustment Expenses: The reserve for losses and loss adjustment expenses ("LAE") represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30, 2021. CIC did not discount the reserve for losses and LAE. The reserve for losses and LAE was estimated based on actuarial and other assumptions including individual case-basis valuations, past experience, and statistical analysis. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserve for losses and LAE were adequate.
7. Recent Accounting Pronouncements: In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities and changes in net assets will reflect the measurement of credit losses for newly-recognized financial assets as well as the increases or decreases of expected credit losses that have taken place during the period. This standard is effective for the fiscal year ending June 30, 2024 and not expected to have a material impact on the consolidated financial statements.

Note D - 1999 Trust Estate Investments

As of June 30, 2022 and 2021, \$5,701 and \$7,579, respectively, of the 1999 Trust Estate is invested in securities of the First American Government Obligation Fund, a diversified mutual fund investing exclusively in U.S. Treasury obligations.

Note E - 2001 Trust Estate Investments

As of June 30, 2022 and 2021, \$8,749 and \$12,048, respectively, of the 2001 Trust Estate is invested in securities of the First American Government Obligation Fund, a diversified mutual fund investing exclusively in U.S. Treasury obligations.

Note F - 2002 Trust Estate Investments

As of June 30, 2022 and 2021, \$32,098 and \$31,702, respectively, of the 2002 Trust Estate is invested in securities of the First American Government Obligation Fund, a diversified mutual fund investing exclusively in U.S. Treasury obligations.

Note G - 2004 Trust Estate Investments

As of June 30, 2022 and 2021, \$172,696 and \$272,419, respectively, of the 2004 Trust Estate is invested in securities of the American Government Obligation Fund, a diversified mutual fund investing exclusively in U.S. Treasury obligations.

Note H - 2007 Trust Estate Investments

As of June 30, 2022 and 2021, \$30,596 and \$28,169, respectively, of the 2007 Trust Estate is invested in securities of the American Government Obligation Fund, a diversified mutual fund investing exclusively in U.S. Treasury obligations.

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021**

Note I - 2007B Trust Estate Investments

As of June 30, 2022 and 2021, \$69,364 and \$96,392, respectively, of the 2007B Trust Estate is invested in securities of the First American Government Obligation Fund, a diversified mutual fund investing exclusively in U.S. Treasury obligations.

Note J - 2008 Trust Estate Investments

As of June 30, 2022 and 2021, \$44,711 and \$45,829, respectively, of the 2008 Trust Estate is invested in securities of the First American Government Obligation Fund, a diversified mutual fund investing exclusively in U.S. Treasury obligations.

Note K - 2008 A2 Trust Estate Investments

As of June 30, 2022 and 2021, \$9,996 and \$10,734, respectively, of the 2008 A2 Trust Estate is invested in securities of the American Government Obligation Fund, a diversified mutual fund investing exclusively in U.S. Treasury obligations.

Note L - Leases Receivable

As noted in Note A, CoLT was organized to make funds available for capital improvement projects and equipment purchases by Kentucky county governments and special districts. The future minimum lease payments receivable under these leases as of June 30, 2022 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ 7,794,880
2024	7,994,684
2025	8,176,488
2026	7,750,675
2027	7,248,516
Thereafter	<u>27,375,312</u>
	<u>\$ 66,340,555</u>

Interest income on leases is recognized using the effective interest method.

Generally, lease payments are subject to annual appropriation. Counties, however, have historically not defaulted or withdrawn from lease agreements. Management believes certain processes and precedents are in place in state government to provide reasonable assurance that the leases will be honored by the counties as non-cancelable lease agreements. Some of the leases are secured by a general obligation pledge.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note M - Notes Receivable

Notes receivable consist of funds loaned to Kentucky county governments for capital improvement projects and equipment purchases from Program Administration. These notes include interest rates ranging from 3.25% to 4.95%.

During fiscal year 2021, \$2,400,000 of additional notes receivables were disbursed related to deferred payment loans to counties for flood relief. These funds were available to impacted counties that experienced flood losses not covered by insurance and have a financial need for funds to repair property that cannot otherwise be met by county's available resources. The maximum loan amount was \$500,000 per borrower who are insured by members of Kentucky Association of Counties All Lines Fund. The loans do not require collateral. Beginning on July 1, 2022, the interest component of the loans shall be at an annual rate of 3.74%. Maturity of the loans receivables is June 2027, with no principal component or interest component collected or accrued through June 30, 2022.

The future minimum payments receivable under these notes as of June 30, 2022 are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2023	\$ 692,017
2024	1,401,426
2025	638,867
2026	573,211
2027	535,223
	<u>1,365,074</u>
	<u>\$ 5,205,818</u>

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note N - Other Investments

These funds principally represent accumulated amounts transferred to Program Administration and amounts held by the Subsidiary.

As of June 30, 2022 and 2021, other investments included investments stated at fair value, as follows:

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 140,791	\$ 63,455
Common stock	677,361	841,213
Mutual funds	310,241	444,113
Corporate bonds	602,524	1,448,924
Municipal bonds	1,250,000	500,000
U.S. Government Agency Bonds	258,346	275,000
Other Investments	44,018	-
	<u>\$ 3,283,281</u>	<u>\$ 3,572,705</u>

Note O - Bonds Payable

1999 Series

On December 14, 1999, CoLT, through the County of Breckinridge, Kentucky, issued \$50,000,000 of Bonds. The bonds were initially offered as Weekly Rate Bonds. Weekly Rate Bonds can be converted to Adjustable Rate Bonds or Fixed Rate Bonds. CoLT has the ability to redeem Weekly Rate Bonds on any business day, Adjustable Rate Bonds on any September 1 or March 1 (or, if not a business day, then the next business day), and Fixed Rate Bonds on any interest payment date that is 10 years from the fixed rate conversion date. During 2014, CoLT exercised its option to convert the outstanding bonds to Adjustable Rate Bonds. Upon conversion, US Bank purchased the Adjustable Rate Bonds. During the years ended June 30, 2022 and 2021, \$338,000 and \$320,000, respectively, of the 1999 Bonds were permanently retired by CoLT. Substantially all assets of the 1999 Trust Estate are pledged to secure repayment of the 1999 Bonds. The average interest rates for the years ended June 30, 2022 and 2021 were 0.42% and 0.30%, respectively.

2001 Series

On February 8, 2001, CoLT, through the County of Breckinridge, Kentucky, issued \$50,000,000 of Bonds. The bonds were initially offered as Weekly Rate Bonds. Weekly Rate Bonds can be converted to Adjustable Rate Bonds or Fixed Rate Bonds. CoLT has the ability to redeem Weekly Rate Bonds on any business day, Adjustable Rate Bonds on any September 1 or March 1 (or, if not a business day, then the next business day), and Fixed Rate Bonds on any interest payment date that is 10 years from the fixed rate conversion date. During 2014, CoLT exercised its option to convert the outstanding bonds to Adjustable Rate Bonds. Upon conversion, US Bank purchased the Adjustable Rate Bonds. During the years ended June 30, 2022 and 2021, \$265,215 and \$641,448, respectively, of the 2001 Bonds were permanently retired by CoLT. Substantially all assets of the 2001 Trust Estate are pledged to secure repayment of the 2001 Bonds. The average interest rates for the years ended June 30, 2022 and 2021 were 1.08% and 0.98%, respectively.

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021**

Note O - Bonds Payable (Continued)

2002 Series

On January 1, 2002, CoLT, through the County of Breckinridge, Kentucky, issued \$100,000,000 of Bonds. The bonds were initially offered as Daily Rate Bonds. Daily Rate Bonds can be converted to Weekly Rate Bonds, Adjustable Rate Bonds, or Fixed Rate Bonds. CoLT has the ability to redeem Daily Rate Bonds and Weekly Rate Bonds the first business day of each month, Adjustable Rate Bonds on any September 1 or March 1 (or, if not a business day, then the next business day), and Fixed Rate Bonds on any interest payment date that is at least 10 years from the fixed rate conversion date. During 2014, CoLT exercised its option to convert the outstanding bonds to Adjustable Rate Bonds. Upon conversion, US Bank purchased the Adjustable Rate Bonds. During the years ended June 30, 2022 and 2021, \$448,625 and \$430,243 respectively, of the 2002 Bonds were permanently retired by CoLT. Substantially all assets of the 2002 Trust Estate are pledged to secure repayment of the 2002 Bonds. The average interest rates for the years ended June 30, 2022 and 2021 were 1.35% and 1.22%, respectively.

2004 Series

On September 1, 2004, CoLT, through the County of Shelby, Kentucky, issued \$100,000,000 of Bonds. The bonds were initially offered as Daily Rate Bonds. Daily Rate Bonds can be converted to Weekly Rate Bonds, Adjustable Rate Bonds, or Fixed Rate Bonds. CoLT has the ability to redeem Daily Rate Bonds and Weekly Rate Bonds the first business day of each month, Adjustable Rate Bonds on any September 1 or March 1 (or, if not a business day, then the next business day), and Fixed Rate Bonds on any interest payment date that is at least 10 years from the fixed rate conversion date. During 2014, CoLT exercised its option to convert the outstanding bonds to Adjustable Rate Bonds. Upon conversion, US Bank purchased the Adjustable Rate Bonds. During the fiscal years ended June 30, 2022 and 2021, \$1,354,130 and \$2,133,838, respectively, of the 2004 Bonds were permanently retired by CoLT. Substantially all assets of the 2004 Trust Estate are pledged to secure repayment of the 2004 Bonds. The average interest rates for the years ended June 30, 2022 and 2021 were 0.91% and 0.79%, respectively.

2007 Series

On April 1, 2007, CoLT, through the County of Christian, Kentucky, issued \$50,000,000 of Bonds. The bonds were initially offered as Daily Rate Bonds. Daily Rate Bonds can be converted to Weekly Rate Bonds, Adjustable Rate Bonds, or Fixed Rate Bonds. CoLT has the ability to redeem Daily Rate Bonds and Weekly Rate Bonds the first business day of each month, Adjustable Rate Bonds on any September 1 or March 1 (or, if not a business day, then the next business day), and Fixed Rate Bonds on any interest payment date that is at least 10 years from the fixed rate conversion date. During 2014, CoLT exercised its option to convert the outstanding bonds to Adjustable Rate Bonds. Upon conversion, US Bank purchased the Adjustable Rate Bonds. During the fiscal years ended June 30, 2022 and 2021, \$1,473,343 and \$1,670,868, respectively, of the 2007 Bonds were permanently retired by CoLT. Substantially all assets of the 2007 Trust Estate are pledged to secure repayment of the 2007 Bonds. The average interest rates for the years ended June 30, 2022 and 2021 were 0.71% and 0.59%, respectively.

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021**

Note O - Bonds Payable (Continued)

2007B Series

On August 1, 2007, CoLT, through the County of Christian, Kentucky, issued \$70,000,000 of Bonds. The bonds were initially offered as Daily Rate Bonds. Daily Rate Bonds can be converted to Weekly Rate Bonds, Adjustable Rate Bonds, or Fixed Rate Bonds. CoLT has the ability to redeem Daily Rate Bonds and Weekly Rate Bonds the first business day of each month, Adjustable Rate Bonds on any September 1 or March 1 (or, if not a business day, then the next business day), and Fixed Rate Bonds on any interest payment date that is at least 10 years from the fixed rate conversion date. During 2014, CoLT exercised its option to convert the outstanding bonds to Adjustable Rate Bonds. Upon conversion, US Bank purchased the Adjustable Rate Bonds. During the years ended June 30, 2022 and 2021, \$1,526,558 and \$1,347,784 respectively, of the 2007B Bonds were permanently retired by CoLT. Substantially all assets of the 2007B Trust Estate are pledged to secure repayment of the 2007B Bonds. The average interest rates for the years ended June 30, 2022 and 2021 were 0.57% and 0.56%, respectively.

2008 Series

On June 1, 2008, CoLT, through the County of Christian, Kentucky, issued \$30,000,000 of Bonds. The bonds were initially offered as Daily Rate Bonds. Daily Rate Bonds can be converted to Weekly Rate Bonds, Adjustable Rate Bonds, or Fixed Rate Bonds. CoLT has the ability to redeem Daily Rate Bonds and Weekly Rate Bonds the first business day of each month, Adjustable Rate Bonds on any September 1 or March 1 (or, if not a business day, then the next business day), and Fixed Rate Bonds on any interest payment date that is at least 10 years from the fixed rate conversion date. During 2014, CoLT exercised its option to convert the outstanding bonds to Adjustable Rate Bonds. Upon conversion, US Bank purchased the Adjustable Rate Bonds. During the years ended June 30, 2022 and 2021, \$305,000 and \$300,000, respectively, of the 2008 Bonds were permanently retired by CoLT. Substantially all assets of the 2008 Trust Estate are pledged to secure repayment of the 2008 Bonds. The average interest rates for the years ended June 30, 2022 and 2021 were 0.75% and 0.61%, respectively.

2008 A2 Series

On December 1, 2008, CoLT, through the County of Trimble, Kentucky, issued \$75,000,000 of Bonds. The bonds were initially offered as Daily Rate Bonds. Daily Rate Bonds can be converted to Weekly Rate Bonds, Adjustable Rate Bonds, or Fixed Rate Bonds. CoLT has the ability to redeem Daily Rate Bonds and Weekly Rate Bonds the first business day of each month, Adjustable Rate Bonds on any June 1 or December 1 (or, if not a business day, then the next business day), and Fixed Rate Bonds on any interest payment date that is at least 10 years from the fixed rate conversion date. During 2014, CoLT exercised its option to convert the outstanding bonds to Adjustable Rate Bonds. Upon conversion, US Bank purchased the Adjustable Rate Bonds. During the years ended June 30, 2022 and 2021, \$2,004,000 and \$1,987,921, respectively, of the 2008 A2 Bonds were permanently retired by CoLT. Substantially all assets of the 2008 A2 Trust Estate are pledged to secure repayment of the 2008 A2 Bonds. The average interest rates for the years ended June 30, 2022 and 2021 were 0.97% and 0.97%, respectively.

Debt issuance costs are being amortized using the effective interest method over the terms of the related bonds. Amortization for the years ended June 30, 2022 and 2021 was \$46,673 and \$53,934, respectively, and is included in interest expense in the accompanying consolidated statements of activities and changes in net assets during the years ended June 30, 2022 and 2021, respectively. Debt issuance costs are netted against bonds payable in the consolidated statements of financial position in accordance with the amended guidance in ASC 250. As of June 30, 2022 and 2021 the unamortized balance of debt issuance costs was \$254,223 and \$300,896 respectively.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note P - Fair Value of Financial Instruments

The FASB issued a standard under the ASC which defines fair value and provides a framework for measuring fair value, and expands disclosures required for fair value measurements. The ASC 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 CoLT's own assumptions.

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

- Cash and Cash Equivalents: Many of CoLT's financial instruments have short-term maturities or have interest rates which vary in the short-term. These include cash investments. The fair values of such instruments approximate the respective carrying values.
- Mutual Funds Held in Trust Estates: These include First American Government Obligation Funds. These funds are valued based on quoted market prices.
- Other Investments: The investments and instruments discussed in Note N are recorded at fair value based on quoted market prices or values provided by brokerage firms based upon cash flow models.
- Interest Rate Exchanges: The instruments discussed in Note C3 are recorded at fair value based on quoted market prices or values provided by brokerage firms based upon cash flow models.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note P - Fair Value of Financial Instruments (Continued)

The following table summarizes CoLT's assets and liabilities measured at fair value as of June 30, 2022:

	2022		Total
	Level 1	Level 2	
Assets			
Cash and cash equivalents	\$ 3,609,426	\$ -	\$ 3,609,426
Mutual funds held in trust estates	-	1,361,744	1,361,744
Other investments	1,386,738	1,896,543	3,283,281
	<u>\$ 4,996,164</u>	<u>\$ 3,258,287</u>	<u>\$ 8,254,451</u>
Liabilities			
Interest rate exchanges	<u>\$ -</u>	<u>\$ 3,488,053</u>	<u>\$ 3,488,053</u>

The following table summarizes CoLT's assets and liabilities measured at fair value as of June 30, 2021:

	2021		Total
	Level 1	Level 2	
Assets			
Cash and cash equivalents	\$ 5,088,852	\$ -	\$ 5,088,852
Mutual funds held in trust estates	-	1,487,197	1,487,197
Other investments	1,585,234	1,987,471	3,572,705
	<u>\$ 6,674,086</u>	<u>\$ 3,474,668</u>	<u>\$ 10,148,754</u>
Liabilities			
Interest rate exchanges	<u>\$ -</u>	<u>\$ 10,334,361</u>	<u>\$ 10,334,361</u>

Note Q - Tax Status

The trust agreements state that all funds held are considered to be property of the public agencies participating in the Trusts. The Trusts intend to be instruments of the participating public agencies and only execute essential government functions. As such, the income of the Leasing Trust is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements related to the Trusts.

The 1999, 2001, 2002, 2004, 2007, 2007B, 2008 and 2008 A2 Bonds are subject to the arbitrage rebate regulations included in the Internal Revenue Code. These regulations require arbitrage earnings be rebated to the United States to prevent a bond issuance from being classified as arbitrage bonds. The regulations include certain exceptions to the rebate payments. There are no accrued arbitrage rebates recorded at June 30, 2022 and 2021.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note Q - Tax Status (Continued)

The Subsidiary, for federal income tax purposes, was classified as an insurance company, other than a life insurance company, as described under Internal Revenue Code Section 831(b). The Subsidiary also qualifies under Code Section 834 for an alternative income tax calculation available to certain electing small insurance companies which have net premium income not exceeding \$2,300,000. Under this election, the Subsidiary was taxed only on its net investment income. The Subsidiary was exempt from Kentucky corporate income taxes. Total income tax expense for the years ended June 30, 2022 and 2021 was \$5,000 and \$55,498, respectively. The Subsidiary's deferred tax for the years ended June 30, 2022 and 2021 were \$0 and \$95,296, respectively, resulting from unrealized gains and losses on investments.

The FASB issued standards, contained in the ASC, clarifying the accounting for uncertainty in income taxes recognized in annual financial statements. These standards require recognition and measurement of uncertain income tax position using a "more-likely-than-not" approach. The standards also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. CoLT determined that no material adjustment for tax exposures or unrecognized tax benefits was required under the recognition and measurement and disclosure guidance of the standard as of June 30, 2022 and 2021.

Note R - Concentrations

At June 30, 2022, there are leases receivable outstanding of approximately \$32,390,000 from two counties which represents approximately 48% of leases receivable. At June 30, 2021, there are leases receivable outstanding of approximately \$35,545,000 from two counties which represents approximately 48% of leases receivable.

Note S - Related-party Transactions

As discussed in Note B1, CoLT and the Trusts are sponsored by KACo. From time to time in the ordinary course of business, CoLT enters into transactions with KACo affiliates. Members of CoLT's Board are also members of this organization.

CoLT paid \$1,000 to KACo for licensing fees during the year ended June 30, 2022 and 2021, respectively.

As noted in Note B2, KACo collects management fees from CoLT for providing services necessary for the orderly and proper administration of CoLT. For the years ended June 30, 2022 and 2021, CoLT paid approximately \$289,200 and \$288,800, respectively, to KACo for management fees.

In the fiscal years ended June 30, 2022 and 2021, CoLT entered into agreements with KACo (see Note B, Administrative Services), in which CoLT pays a quarterly fee to cover all program administration costs paid by KACo. Cash paid to KACo was \$895,458 and \$785,735 for the fiscal years ended June 30, 2022 and 2021, respectively. The related expense was \$928,625 and \$909,798 for the years ended June 30, 2022 and 2021, respectively. Under the agreement, differences between amounts incurred by CoLT and paid by KACo and the quarterly fee will be "trued up" after year end. As of June 30, 2022 and 2021, CoLT has recorded a prepaid of \$37,125 and \$70,892, respectively, related to the "true-up".

As of June 30, 2022 and 2021, CoLT owns a KACO Finance Corporation revenue bond for \$500,000 which was purchased with funds held in the Program Administration Fund (see Note A). The investment is included in other investments in the accompanying consolidated financial statements.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Notes to Consolidated Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

Note T - Minimum Capital and Surplus Requirements

As of June 30, 2021, the Subsidiary was in compliance with its minimum capital and surplus requirements, as set forth by the applicable insurance regulatory authorities. The minimum capital and surplus required to be maintained was \$250,000. Upon dissolution, the Subsidiary returned capital of \$1,500,000 to the Parent.

The maximum amount of dividends that may be paid by insurance companies without prior approval of regulators is subject to restrictions relating to statutory surplus and net income. The Subsidiary declared and paid, with approval of regulators, dividends of \$761,052 and \$5,000,000 during the fiscal years ended June 30, 2022 and 2021, respectively.

Note U - CIC Assumption Agreement and Dissolution (Report of Other Auditors)

In March of 2021, an Agreement for the Transfer and Assumption of Liabilities was made and entered into between KALF and CIC. In consideration of \$550,000 paid by CIC to KALF, KALF assumed all liabilities on policies previously issued by CIC through June 30, 2022. CIC recognized no gain or loss on the assumption agreement during 2021. In addition, CIC discontinued writing any new policies effective June 30, 2020.

On June 17, 2021, the Directors of CIC voted to dissolve the corporation. The Articles of Dissolution were submitted to the Kentucky Department of Insurance on July 1, 2021. CIC is currently awaiting approval. Final disposition of the remaining assets and liabilities of CIC occurred during the year ending June 30, 2022.

Supplementary Information

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Consolidating Statement of Financial Position
June 30, 2022**

	Program admin	1999 trust estate	2001 trust estate	2002 trust estate	2004 trust estate	2007 trust estate	2007B trust estate	2008 trust estate	2008 A2 trust estate	Eliminations	Total
Assets											
Cash and cash equivalents	\$ 3,609,426	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,609,426
Trust estate investments	9,154	(89,073)	(69,350)	100,910	379,621	65,369	33,786	(54,398)	985,725	-	1,361,744
Leases receivable	-	1,127,000	1,870,000	1,609,053	11,240,654	10,414,202	18,628,416	5,224,230	16,227,000	-	66,340,555
Leases receivable - unrealized appreciation in fair value	-	40,550	210,234	54,488	703,696	538,772	1,213,989	215,034	511,290	-	3,488,053
Other receivables	540,150	-	-	-	-	-	-	-	-	-	540,150
Intercompany receivables	-	-	-	-	-	-	3,658	-	-	(3,658)	-
Due from affiliate	52,646	-	-	-	-	-	-	-	-	(15,521)	37,125
Notes receivable, net	5,205,818	-	-	-	-	-	-	-	-	-	5,205,818
Other investments	3,283,281	-	-	-	-	-	-	-	-	-	3,283,281
Total assets	\$ 12,700,475	\$ 1,078,477	\$ 2,010,884	\$ 1,764,451	\$ 12,323,971	\$ 11,018,343	\$ 19,879,849	\$ 5,384,866	\$ 17,724,015	\$ (19,179)	\$ 83,866,152
Liabilities and net assets											
Liabilities											
Accrued interest payable	\$ -	\$ 1,289	\$ 4,583	\$ 1,111	\$ 18,056	\$ 13,656	\$ 23,736	\$ 8,206	\$ 11,572	\$ -	\$ 82,209
Interest rate exchanges	-	40,550	210,234	54,488	703,696	538,772	1,213,989	215,034	511,290	-	3,488,053
Other accrued expenses	22,487	364	696	8,219	67,998	32,967	12,751	1,697	209,971	(19,179)	337,971
Bonds payable, net	-	1,117,410	1,843,390	1,599,573	11,321,154	10,401,703	18,593,484	5,193,862	16,193,838	-	66,264,414
Total liabilities	22,487	1,159,613	2,058,903	1,663,391	12,110,904	10,987,098	19,843,960	5,418,799	16,926,671	(19,179)	70,172,647
Net assets, unrestricted/retained	12,677,988	(81,136)	(48,019)	101,060	213,067	31,245	35,889	(33,933)	797,344	-	13,693,505
Total net assets, unrestricted/ retained earnings	12,677,988	(81,136)	(48,019)	101,060	213,067	31,245	35,889	(33,933)	797,344	-	13,693,505
Total liabilities and net assets	\$ 12,700,475	\$ 1,078,477	\$ 2,010,884	\$ 1,764,451	\$ 12,323,971	\$ 11,018,343	\$ 19,879,849	\$ 5,384,866	\$ 17,724,015	\$ (19,179)	\$ 83,866,152

See independent auditor's report.

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Consolidating Statement of Financial Position
June 30, 2021**

	Program admin	1999 trust estate	2001 trust estate	2002 trust estate	2004 trust estate	2007 trust estate	2007B trust estate	2008 trust estate	2008 A2 trust estate	Common- wealth Ins.	Eliminations	Total
Assets												
Cash and cash equivalents	\$ 3,592,270	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,496,582	\$ -	\$ 5,088,852
Trust estate investments	9,154	(88,651)	(60,589)	94,553	472,983	50,398	38,034	(54,776)	1,026,091	-	-	1,487,197
Leases receivable	-	1,465,000	2,133,728	2,039,951	12,524,481	11,894,608	20,138,338	5,529,230	18,232,000	-	-	73,957,336
Leases receivable - unrealized appreciation in fair value	-	127,511	451,811	155,119	1,861,043	1,564,943	3,462,466	653,034	2,058,434	-	-	10,334,361
Other receivables	611,472	-	-	-	-	-	-	-	-	-	-	611,472
Intercompany receivables	-	-	-	-	-	-	3,658	-	-	-	(3,658)	-
Due from affiliate	88,220	-	-	-	-	-	-	-	-	-	(17,328)	70,892
Notes receivable, net	4,482,222	-	-	-	-	-	-	-	-	-	-	4,482,222
Other investments	4,196,729	-	-	-	-	-	-	-	-	875,976	(1,500,000)	3,572,705
Accrued interest receivable	-	-	-	-	-	-	-	-	-	5,187	-	5,187
Total assets	\$ 12,980,067	\$ 1,503,860	\$ 2,524,950	\$ 2,289,623	\$ 14,858,507	\$ 13,509,949	\$ 23,642,496	\$ 6,127,488	\$ 21,316,525	\$ 2,377,745	\$ (1,520,986)	\$ 99,610,224
Liabilities and net assets												
Liabilities												
Accrued interest payable	\$ -	\$ 339	\$ 1,564	\$ 189	\$ 8,366	\$ 5,140	\$ 8,594	\$ 2,561	\$ 13,573	\$ -	\$ -	\$ 40,326
Interest rate exchanges	-	127,511	451,811	155,119	1,861,043	1,564,943	3,462,466	653,034	2,058,434	-	-	10,334,361
Other accrued expenses	23,116	775	3,071	11,129	88,089	43,278	21,094	3,643	227,503	86,528	(20,986)	487,240
Bonds payable, net	-	1,449,319	2,103,373	2,043,753	12,666,615	11,870,443	20,115,285	5,491,634	18,192,190	-	-	73,932,612
Total liabilities	23,116	1,577,944	2,559,819	2,210,190	14,624,113	13,483,804	23,607,439	6,150,872	20,491,700	86,528	(20,986)	84,794,539
Common stock	-	-	-	-	-	-	-	-	-	1,500,000	(1,500,000)	-
Net assets, unrestricted/retained earnings	12,956,951	(74,084)	(34,869)	79,433	234,394	26,145	35,057	(23,384)	824,825	791,217	-	14,815,685
Total net assets/ retained earnings	12,956,951	(74,084)	(34,869)	79,433	234,394	26,145	35,057	(23,384)	824,825	2,291,217	(1,500,000)	14,815,685
Total liabilities and net assets	\$ 12,980,067	\$ 1,503,860	\$ 2,524,950	\$ 2,289,623	\$ 14,858,507	\$ 13,509,949	\$ 23,642,496	\$ 6,127,488	\$ 21,316,525	\$ 2,377,745	\$ (1,520,986)	\$ 99,610,224

See independent auditor's report.

**Kentucky Association of Counties Leasing Trust
and Subsidiary**
Consolidating Statement of Activities and Changes in Net Assets
Year Ended June 30, 2022

	Program admin	1999 trust estate	2001 trust estate	2002 trust estate	2004 trust estate	2007 trust estate	2007B trust estate	2008 trust estate	2008 A2 trust estate	Common- wealth Ins.	Eliminations	Total
Revenues												
Investment income	\$ 860,566	\$ 2	\$ 1	\$ 16	\$ 8	\$ 12	\$ 17	\$ 5	\$ 193	785	\$ (761,052)	\$ 100,553
Income from leases receivable	92,717	70,269	116,752	116,195	572,346	541,295	908,712	251,339	786,113	-	-	3,455,738
Credit, administrative and fiduciary fees	862,468	-	-	-	-	-	-	-	-	-	(197,306)	665,162
Net realized and unrealized losses on investments	(382,975)	-	-	-	-	-	-	-	-	(9,644)	-	(392,619)
Total revenues	1,432,776	70,271	116,753	116,211	572,354	541,307	908,729	251,344	786,306	(8,859)	(958,358)	3,828,834
Expenses												
Interest	-	72,840	121,973	79,504	532,196	480,167	825,481	240,914	745,631	-	-	3,098,706
Administrative and other fees	1,445,497	3,235	5,656	5,411	33,541	30,821	54,620	15,139	49,184	16,250	(197,306)	1,462,048
Legal fees	143,027	-	-	-	-	-	-	-	-	-	-	143,027
Trustee fees	122,215	1,248	2,182	1,971	12,938	11,888	21,069	5,840	18,972	56	-	198,379
Sponsoring agency fees	1,000	-	-	-	-	-	-	-	-	-	-	1,000
Lease rebates	-	-	92	7,698	15,006	13,331	6,727	-	-	-	-	42,854
Provision for income taxes	-	-	-	-	-	-	-	-	-	5,000	-	5,000
Total expenses	1,711,739	77,323	129,903	94,584	593,681	536,207	907,897	261,893	813,787	21,306	(197,306)	4,951,014
Changes in net assets	(278,963)	(7,052)	(13,150)	21,627	(21,327)	5,100	832	(10,549)	(27,481)	(30,165)	(761,052)	(1,122,180)
Distribution of net assets of CIC dissolution												
	-	-	-	-	-	-	-	-	-	(2,261,052)	2,261,052	-
Net assets (deficit) at beginning of year												
	12,956,951	(74,084)	(34,869)	79,433	234,394	26,145	35,057	(23,384)	824,825	2,291,217	(1,500,000)	14,815,685
Net assets (deficit) at end of year												
	\$ 12,677,988	\$ (81,136)	\$ (48,019)	\$ 101,060	\$ 213,067	\$ 31,245	\$ 35,889	\$ (33,933)	\$ 797,344	\$ -	\$ -	\$ 13,693,505

See independent auditor's report.

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Consolidating Statement of Activities and Changes in Net Assets
Year Ended June 30, 2021**

	Program admin	1999 trust estate	2001 trust estate	2002 trust estate	2004 trust estate	2007 trust estate	2007b trust estate	2008 trust estate	2008 A2 trust estate	Common- wealth Ins.	Eliminations	Total
Revenues												
Investment income	\$ 5,051,663	\$ 1	\$ 2	\$ 1	\$ 6	\$ 4	\$ 5	\$ 2	\$ 7	\$ 139,569	\$ (5,000,000)	\$ 191,260
Income from lease receivable	105,497	90,372	149,350	124,394	666,485	614,646	964,646	264,775	872,310	-	-	3,852,475
Credit, administrative and fiduciary fees	639,998	-	-	-	-	-	-	-	-	-	(219,557)	420,441
Miscellaneous income	66	-	-	-	-	-	-	-	-	-	-	66
Net realized and unrealized gains on investments	345,479	-	-	-	-	-	-	-	-	186,524	-	532,003
Total revenues	6,142,703	90,373	149,352	124,395	666,491	614,650	964,651	264,777	872,317	326,093	(5,219,557)	4,996,245
Expenses												
Interest	-	92,392	150,691	96,579	585,976	535,259	868,189	250,014	812,691	-	-	3,391,791
Administrative and other fees	1,425,601	4,177	6,941	6,338	37,652	35,232	58,562	15,979	53,646	124,423	(219,557)	1,548,994
Legal fees	130,281	-	-	-	-	-	-	-	-	-	-	130,281
Trustee fees	128,086	1,611	2,869	2,445	14,523	13,590	22,587	6,163	21,089	27,128	-	240,091
Sponsoring agency fees	994	-	-	-	-	-	-	-	-	-	-	994
Lease rebates	-	-	358	10,464	21,588	15,333	8,731	-	259	-	-	56,733
Miscellaneous expense	-	-	-	-	-	-	-	-	1,030	-	-	1,030
Claims expense and change in estimated liability for future claims	-	-	-	-	-	-	-	-	-	40,000	-	40,000
Provision for income taxes	-	-	-	-	-	-	-	-	-	55,498	-	55,498
Total expenses	1,684,962	98,180	160,859	115,826	659,739	599,414	958,069	272,156	888,715	247,049	(219,557)	5,465,412
Changes in net assets	4,457,741	(7,807)	(11,507)	8,569	6,752	15,236	6,582	(7,379)	(16,398)	79,044	(5,000,000)	(469,167)
Dividends	-	-	-	-	-	-	-	-	-	(5,000,000)	5,000,000	-
Net assets (deficit) at beginning of year	8,499,210	(66,277)	(23,362)	70,864	227,642	10,909	28,475	(16,005)	841,223	7,212,173	(1,500,000)	15,284,852
Net assets (deficit) at end of year	\$ 12,956,951	\$ (74,084)	\$ (34,869)	\$ 79,433	\$ 234,394	\$ 26,145	\$ 35,057	\$ (23,384)	\$ 824,825	\$ 2,291,217	\$ (1,500,000)	\$ 14,815,685

See independent auditor's report.

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Consolidating Statement of Cash Flows
Year Ended June 30, 2022**

	Program admin	1999 trust estate	2001 trust estate	2002 trust estate	2004 trust estate	2007 trust estate	2007B trust estate	2008 trust estate	2008 A2 trust estate	Common- wealth Ins.	Eliminations	Total
Cash flows from operating activities												
Changes in net assets	\$ (278,963)	\$ (7,052)	\$ (13,150)	\$ 21,627	\$ (21,327)	\$ 5,100	\$ 832	\$ (10,549)	\$ (27,481)	\$ (30,165)	\$ (761,052)	\$ (1,122,180)
Adjustments to reconcile changes in net assets to net cash used in operating activities												
Amortization of debt issuance costs	-	6,091	5,232	4,445	8,669	4,603	4,757	7,228	5,648	-	-	46,673
Net realized and unrealized gains on other investments	382,975	-	-	-	-	-	-	-	-	9,644	-	392,619
Changes in												
Other receivables	71,322	-	-	-	-	-	-	-	-	-	-	71,322
Receivable from affiliate, net	35,574	-	-	-	-	-	-	-	-	-	(1,807)	33,767
Accrued interest receivable	-	-	-	-	-	-	-	-	-	5,187	-	5,187
Accrued interest payable	-	950	3,019	922	9,690	8,516	15,142	5,645	(2,001)	-	-	41,883
Other accrued expenses	(629)	(411)	(2,375)	(2,910)	(20,091)	(10,311)	(8,343)	(1,946)	(17,532)	(86,528)	1,807	(149,269)
Net cash provided by (used in) operating activities	210,279	(422)	(7,274)	24,084	(23,059)	7,908	12,388	378	(41,366)	(101,862)	(761,052)	(679,998)
Cash flows from investing activities												
Net proceeds from (purchases of) trust estate investments	-	422	8,761	(6,357)	93,362	(14,971)	4,248	(378)	40,366	-	-	125,453
Lease repayments	-	338,000	263,728	430,898	1,283,827	1,480,406	1,509,922	305,000	2,005,000	-	-	7,616,781
Net (purchases) proceeds from other investments	(969,527)	-	-	-	-	-	-	-	-	866,332	-	(103,195)
Principal repayments on notes receivable	3,127,724	-	-	-	-	-	-	-	-	-	-	3,127,724
Issuance of notes receivable	(3,851,320)	-	-	-	-	-	-	-	-	-	-	(3,851,320)
Net cash (used in) provided by investing activities	(1,693,123)	338,422	272,489	424,541	1,377,189	1,465,435	1,514,170	304,622	2,045,366	866,332	-	6,915,443
Cash flows from financing activities												
Dividends paid	-	-	-	-	-	-	-	-	-	(761,052)	761,052	-
Transfer of dissolution of CIC	1,500,000	-	-	-	-	-	-	-	-	(1,500,000)	-	-
Payments on bonds	-	(338,000)	(265,215)	(448,625)	(1,354,130)	(1,473,343)	(1,526,558)	(305,000)	(2,004,000)	-	-	(7,714,871)
Net cash provided by (used in) financing activities	1,500,000	(338,000)	(265,215)	(448,625)	(1,354,130)	(1,473,343)	(1,526,558)	(305,000)	(2,004,000)	(2,261,052)	761,052	(7,714,871)
Net cash and cash equivalents	17,156	-	-	-	-	-	-	-	-	(1,496,582)	-	(1,479,426)
Cash and cash equivalents at beginning of year	3,592,270	-	-	-	-	-	-	-	-	1,496,582	-	5,088,852
Cash and cash equivalents at end of year	\$ 3,609,426	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,609,426

See independent auditor's report.

**Kentucky Association of Counties Leasing Trust
and Subsidiary
Consolidating Statement of Cash Flows
Year Ended June 30, 2021**

	Program admin	1999 trust estate	2001 trust estate	2002 trust estate	2004 trust estate	2007 trust estate	2007b trust estate	2008 trust estate	2008 A2 trust estate	Common- wealth Ins.	Eliminations	Total
Cash flows from operating activities												
Changes in net assets	\$ 4,457,741	\$ (7,807)	\$ (11,507)	\$ 8,569	\$ 6,752	\$ 15,236	\$ 6,582	\$ (7,379)	\$ (16,398)	\$ 79,044	\$ (5,000,000)	\$ (469,167)
Adjustments to reconcile changes in net assets to net cash used in operating activities												
Amortization of debt issuance costs	-	7,405	6,806	5,382	10,147	5,249	5,075	7,608	6,262	-	-	53,934
Net realized and unrealized losses on other investments	(345,479)	-	-	-	-	-	-	-	-	(196,820)	-	(542,299)
Changes in												
Other receivables	(273,779)	-	-	-	-	-	-	-	-	-	-	(273,779)
Receivable from affiliate, net	91,912	-	-	-	-	-	-	-	-	32,055	(2,056)	121,911
Accrued interest receivable	-	-	-	-	-	-	-	-	-	18,352	-	18,352
Other assets	-	-	-	-	-	-	-	-	-	14,175	-	14,175
Accrued interest payable	-	(202)	(678)	(2,422)	(2,712)	(2,087)	(2,161)	(553)	(2,875)	-	-	(13,690)
Other accrued expenses	2,948	(101)	1,353	7,711	4,716	7,148	6,459	(106)	(24,058)	(436,102)	2,056	(427,976)
Deferred income taxes	-	-	-	-	-	-	-	-	-	(85,000)	-	(85,000)
Net cash provided by (used in) operating activities	3,933,343	(705)	(4,026)	19,240	18,903	25,546	15,955	(430)	(37,069)	(574,296)	(5,000,000)	(1,603,539)
Cash flows from investing activities												
Net (purchases) proceeds from trust estate investments	-	705	5,362	(18,651)	(23,366)	(22,693)	(15,933)	5,430	38,844	-	-	(30,302)
Lease repayments	-	320,000	640,112	428,654	2,138,301	1,668,015	1,347,762	295,000	1,986,146	-	-	8,823,990
Net (purchases) proceeds from other investments	1,923	-	-	-	-	-	-	-	-	6,015,919	-	6,017,842
Principal repayments on notes receivable	3,127,724	-	-	-	-	-	-	-	-	-	-	3,127,724
Issuance of notes receivable	(4,944,090)	-	-	-	-	-	-	-	-	-	-	(4,944,090)
Net cash (used in) provided by investing activities	(1,814,443)	320,705	645,474	410,003	2,114,935	1,645,322	1,331,829	300,430	2,024,990	6,015,919	-	12,995,164
Cash flows from financing activities												
Dividends paid	-	-	-	-	-	-	-	-	-	(5,000,000)	5,000,000	-
Payments on bonds	-	(320,000)	(641,448)	(429,243)	(2,133,838)	(1,670,868)	(1,347,784)	(300,000)	(1,987,921)	-	-	(8,831,102)
Net cash used in financing activities	-	(320,000)	(641,448)	(429,243)	(2,133,838)	(1,670,868)	(1,347,784)	(300,000)	(1,987,921)	(5,000,000)	5,000,000	(8,831,102)
Net change in cash and cash equivalent	2,118,900	-	-	-	-	-	-	-	-	441,623	-	2,560,523
Cash and cash equivalents at beginning of year	1,473,370	-	-	-	-	-	-	-	-	1,054,959	-	2,528,329
Cash and cash equivalents at end of year	\$ 3,592,270	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,496,582	\$ -	\$ 5,088,852

See independent auditor's report.