

**KENTUCKY ASSOCIATION OF COUNTIES
LEASING TRUST AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2023 and 2022

And Report of Independent Auditor

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
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Report of Independent Auditor

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

Opinion

We have audited the consolidated financial statements of Kentucky Association of Counties Leasing Trust (a County Interlocal Cooperation Agreement Trust) and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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, 2023 and 2022, 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. 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.

Prior Period Financial Statements

The financial statements as of June 30, 2022, were audited by MCM CPAs & Advisors LLP, which was acquired by Cherry Bekaert LLP as of October 31, 2023, and whose report dated October 27, 2022, expressed an unmodified opinion on those statements.

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.

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 generally accepted in the United States of America 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 generally accepted in the United States of America, 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 audits.

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, 2023 and 2022, the consolidating statements of activities and changes in net assets for the years ended June 30, 2023 and 2022, and the consolidating statements of cash flows for the years ended June 30, 2023 and 2022, 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.

Cherry Bekaert LLP

Louisville, Kentucky

January 25, 2024

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 3,066,481	\$ 3,609,426
Trust estate investments	453,502	373,911
Escrow accounts	1,243,270	1,295,393
Leases receivable	57,688,428	66,340,555
Leases receivable - unrealized appreciation in fair value	1,523,321	3,488,053
Other receivables	108,019	540,150
Due from affiliate	2,673	37,125
Notes receivable, net	5,499,469	5,205,818
Other investments	3,554,304	3,283,281
Total Assets	<u><u>\$ 73,139,467</u></u>	<u><u>\$ 84,173,712</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued interest payable	\$ 203,431	\$ 82,209
Escrows payable	308,221	307,560
Interest rate exchanges	1,523,321	3,488,053
Other accrued expenses	307,973	337,971
Bonds payable, net	57,764,291	66,264,414
Total Liabilities	60,107,237	70,480,207
Net assets, retained earnings	13,032,230	13,693,505
Total Liabilities and Net Assets	<u><u>\$ 73,139,467</u></u>	<u><u>\$ 84,173,712</u></u>

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

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Revenues:		
Investment income	\$ 324,180	\$ 100,553
Income from leases receivable	2,947,518	3,455,738
Credit, administrative and fiduciary fees	691,154	665,162
Net realized and unrealized gains (losses) on other investments	204,789	(392,619)
Total Revenues	<u>4,167,641</u>	<u>3,828,834</u>
Expenses:		
Interest	2,916,435	3,098,706
Administrative and other fees	1,552,732	1,462,048
Legal fees	156,844	143,027
Trustee fees	182,538	198,379
Sponsoring agency fees	1,000	1,000
Lease rebates	19,245	42,854
Provision for income taxes	122	5,000
Total Expenses	<u>4,828,916</u>	<u>4,951,014</u>
Changes in net assets	(661,275)	(1,122,180)
Net assets, beginning of year	<u>13,693,505</u>	<u>14,815,685</u>
Net assets, end of year	<u>\$ 13,032,230</u>	<u>\$ 13,693,505</u>

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

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Changes in net assets	\$ (661,275)	\$ (1,122,180)
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Amortization of debt issuance costs	41,596	46,673
Net realized and unrealized gain (loss) on other investments	(204,789)	392,619
Changes in:		
Other receivables	432,131	71,322
Receivable from affiliate, net	34,452	33,767
Accrued interest receivable	-	5,187
Accrued interest payable	121,222	41,883
Other accrued expenses	(29,998)	(149,269)
Net cash flows from operating activities	<u>(266,661)</u>	<u>(679,998)</u>
Cash flows from investing activities:		
Purchases of trust estate investments	(526,295)	(186,545)
Proceeds of trust estate investments	499,488	311,998
Lease repayments	8,652,127	7,616,781
Net purchases from other investments	(66,234)	(103,195)
Principal repayments on notes receivable	2,888,117	3,127,724
Issuance of notes receivable	(3,181,768)	(3,851,320)
Net cash flows from investing activities	<u>8,265,435</u>	<u>6,915,443</u>
Cash flows from financing activities:		
Payments on bonds	(8,541,719)	(7,714,871)
Net cash flow from financing activities	<u>(8,541,719)</u>	<u>(7,714,871)</u>
Net change in cash and cash equivalents	(542,945)	(1,479,426)
Cash and cash equivalents at beginning of year	3,609,426	5,088,852
Cash and cash equivalents at end of year	<u>\$ 3,066,481</u>	<u>\$ 3,609,426</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 2,795,213</u>	<u>\$ 3,056,823</u>
Noncash investing and financing activities:		
Decrease in fair value of lease receivables and related interest rate changes	<u>\$ (1,964,732)</u>	<u>\$ (6,846,308)</u>

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

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 1—Nature of organization and operations

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 21).

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

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.

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:

Series	Date of Issuance	Sponsor	Original Issuance Amount	Term	Trustee
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 THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 1—Nature of organization and operations (continued)

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 (“U.S. GAAP”). The Accounting Standards Codification (“ASC”) as produced by the Financial Accounting Standards Board (“FASB”) is the sole source of authoritative U.S. GAAP. The significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

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.

Reclassifications – Certain reclassifications have been made to the June 30, 2022 financial statements to conform with June 30, 2023 presentation; these reclassifications have no impact on changes in net assets or net assets.

Note 2—Contractual agreements

Administrative Services – During fiscal year 2023, KACo provided administrative and management services to CoLT pursuant to contracts that became effective on July 1, 2022 and expired June 30, 2023. 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, 2023.

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 19).

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 THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 2—Contractual agreements (continued)

Trustee Arrangements

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.

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.

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 2—Contractual agreements (continued)

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.

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, 2023 and 2022, the balance of the program escrow fund is \$935,049 and \$1,082,607, respectively and is included as a component of trust estate investments on the consolidated statements of financial position.

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, 2023 and 2022.

1999 Trust Estate – As of June 30, 2023, CoLT has outstanding swap contracts under a master swap agreement, executed with Merrill Lynch in December 1999, of \$772,000 on which CoLT pays fixed rates ranging from 6.07% to 6.17%, and receives a variable rate tied to the SIFMA Index. For the years ended June 30, 2023 and 2022, CoLT made settlement payments of approximately \$25,400 and \$61,300, respectively, under this agreement.

2001 Trust Estate – As of June 30, 2023, CoLT has an outstanding swap contract under a master swap agreement, executed with US Bank in February 2001, of \$1,700,000 on which CoLT pays fixed rates of 5.62% and receives a variable rate tied to the SIFMA Index. For the years ended June 30, 2023 and 2022, CoLT made settlement payments of approximately \$45,400 and \$95,100, respectively, under this agreement.

2002 Trust Estate – As of June 30, 2023, CoLT has outstanding swap contracts under a master swap agreement, executed with Chase in June 2002, of \$1,129,234 on which CoLT pays fixed rates ranging from 3.86% to 4.28%, and receives a variable rate tied to the One Day Municipal Paper Market rates. For the years ended June 30, 2023 and 2022, CoLT made settlement payments of approximately \$18,150 and \$50,250, respectively, under this agreement.

2004 Trust Estate – As of June 30, 2023, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in September 2004 of \$9,565,947 on which CoLT pays fixed rates ranging from 3.75% to 4.94%, and receives a variable rate tied to the SIFMA Index. For the years ended June 30, 2023 and 2022, CoLT made settlement payments of approximately \$173,200 and \$413,500, respectively, under this agreement.

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 2—Contractual agreements (continued)

2007 Trust Estate – As of June 30, 2023, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in May 2007 of \$8,858,016 on which CoLT pays fixed rates ranging from 3.20% to 5.46%, and receives a variable rate tied to the SIFMA Index. For the years ended June 30, 2023 and 2022, CoLT made settlement payments of approximately \$157,800 and \$396,230, respectively, under this agreement.

2007B Trust Estate – As of June 30, 2023, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in August 2007 of \$16,630,000 on which CoLT pays fixed rates ranging from 4.44% to 4.49%, and receives a variable rate tied to the SIFMA Index. For the years ended June 30, 2023 and 2022, CoLT made settlement payments of approximately \$274,100 and \$683,500, respectively, under this agreement.

2008 Trust Estate – As of June 30, 2023, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in August 2008 of \$4,909,230 which CoLT pays fixed rates ranging from 3.69% and 4.51%, and receives a variable rate tied to the SIFMA Index. For the years ended June 30, 2023 and 2022, CoLT made settlement payments of approximately \$74,700 and \$192,900 respectively, under this agreement.

2008 A2 Trust Estate – As of June 30, 2023, CoLT has outstanding swap contracts under a master swap agreement, executed with US Bank in December 2008 of \$14,124,000 on which CoLT pays fixed rates ranging from 4.10% to 4.39%, and receives a variable rate tied to the SIFMA Index. For the years ended June 30, 2023 and 2022, CoLT made settlement payments of approximately \$155,200 and \$547,000, 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 3—Summary of significant accounting policies

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, 2023 and 2022, balances were uninsured and uncollateralized.

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.

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.

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 3—Summary of significant accounting policies

Subsequent Events – Subsequent events for CoLT have been considered through January 25, 2024, which represents the date which the consolidated financial statements were available to be issued.

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, 2023 and 2022.

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.

Recent Accounting Pronouncements – In June 2016, 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 4—1999 trust estate investments

As of June 30, 2023 and 2022, \$4,147 and \$5,701, 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 5—2001 trust estate investments

As of June 30, 2023 and 2022, \$8,116 and \$8,749, 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 6—2002 trust estate investments

As of June 30, 2023 and 2022, \$32,658 and \$32,098, 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 7—2004 trust estate investments

As of June 30, 2023 and 2022, \$266,008 and \$172,696, 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.

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 8—2007 trust estate investments

As of June 30, 2023 and 2022, \$26,715 and \$30,596, 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.

Note 9—2007B trust estate investments

As of June 30, 2023 and 2022, \$59,027 and \$69,364, 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 10—2008 trust estate investments

As of June 30, 2023 and 2022, \$42,464 and \$44,711, 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 11—2008 A2 trust estate investments

As of June 30, 2023 and 2022, \$14,367 and \$9,996, 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 12—Lease receivables

As noted in Note 1, 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, 2023 are as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2024	\$ 7,835,876
2025	8,014,442
2026	7,593,356
2027	7,109,289
2028	6,139,108
Thereafter	20,996,357
	<u>\$ 57,688,428</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 THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 13—Notes receivables

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, 2023 are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2024	\$ 3,110,384
2025	1,051,374
2026	752,741
2027	562,164
2028	22,806
	<u>\$ 5,499,469</u>

Note 14—Other investments

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

As of June 30, 2023 and 2022, other investments included investments stated at fair value, as follows:

	<u>2023</u>	<u>2022</u>
Money market funds	\$ 130,263	\$ 140,791
Common stock	980,200	677,361
Mutual funds	430,490	310,241
Corporate bonds	468,627	602,524
Municipal bonds	1,250,000	1,250,000
U.S. Government Agency bonds	250,512	258,346
Other investments	44,212	44,018
	<u>\$ 3,554,304</u>	<u>\$ 3,283,281</u>

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 15—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, 2023 and 2022, \$355,000 and \$338,000, 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, 2023 and 2022 were 2.28% and 0.42%, 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, 2023 and 2022, \$170,000 and \$265,215, 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, 2023 and 2022 were 3.29% and 1.08%, respectively.

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, 2023 and 2022, \$457,512 and \$448,625 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, 2023 and 2022 were 3.47% and 1.35%, 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, 2023 and 2022, \$1,586,878 and \$1,354,130, 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, 2023 and 2022 were 3.13% and 0.91%, respectively.

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 15—Bonds payable (continued)

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, 2023 and 2022, \$1,556,186 and \$1,473,343, 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, 2023 and 2022 were 3.66% and 0.71%, respectively.

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, 2023 and 2022, \$1,998,416 and \$1,526,558 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, 2023 and 2022 were 3.00% and 0.57%, 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, 2023 and 2022, \$315,000 and \$305,000, 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, 2023 and 2022 were 4.05% and 0.75%, 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, 2023 and 2022, \$2,103,000 and \$2,004,000, 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, 2023 and 2022 were 3.45% and 0.97%, respectively.

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 15—Bonds payable (continued)

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, 2023 and 2022 was \$41,596 and \$46,673, 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, 2023 and 2022, 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, 2023 and 2022 the unamortized balance of debt issuance costs was \$212,627 and \$254,223, respectively.

Note 16—Fair value of financial instruments

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.

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 14 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 3 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 THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 16—Fair value of financial instruments (continued)

The following table summarizes CoLT's assets and liabilities measured at fair value as of June 30, 2023 and 2022:

	2023		
	Level 1	Level 2	Total
Assets:			
Cash and cash equivalents	\$ 3,066,481	\$ -	\$ 3,066,481
Mutual funds held in trust estates	-	453,502	453,502
Money market funds	130,263	-	130,263
Common stock	980,200	-	980,200
Mutual funds	430,490	-	430,490
Corporate bonds	-	468,627	468,627
Municipal bonds	-	1,250,000	1,250,000
U.S. Government Agency bonds	250,512	-	250,512
Other investments	-	44,212	44,212
	<u>\$ 4,857,946</u>	<u>\$ 2,216,341</u>	<u>\$ 7,074,287</u>
Liabilities:			
Interest rate exchanges	<u>\$ -</u>	<u>\$ 1,523,321</u>	<u>\$ 1,523,321</u>
	2022		
	Level 1	Level 2	Total
Assets:			
Cash and cash equivalents	\$ 3,609,426	\$ -	\$ 3,609,426
Mutual funds held in trust estates	-	1,361,744	1,361,744
Money market funds	140,791	-	140,791
Common stock	677,361	-	677,361
Mutual funds	310,241	-	310,241
Corporate bonds	-	602,524	602,524
Municipal bonds	-	1,250,000	1,250,000
U.S. Government Agency bonds	258,346	-	258,346
Other investments	-	44,018	44,018
	<u>\$ 4,996,165</u>	<u>\$ 3,258,286</u>	<u>\$ 8,254,451</u>
Liabilities:			
Interest rate exchanges	<u>\$ -</u>	<u>\$ 3,488,053</u>	<u>\$ 3,488,053</u>

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 17—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, 2023 and 2022.

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, 2023 and 2022 was \$122 and \$5,000, respectively. The Subsidiary's deferred tax for the years ended June 30, 2023 and 2022 were both \$0, resulting from unrealized gains and losses on investments.

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 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, 2023 and 2022.

Note 18—Concentrations

At June 30, 2023, there are leases receivable outstanding of approximately \$32,390,000 from two counties which represents approximately 49% of leases receivable. At June 30, 2022, there are leases receivable outstanding of approximately \$32,390,000 from two counties which represents approximately 48% of leases receivable.

Note 19—Related party transactions

As discussed in Note 2, 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, 2023 and 2022, respectively.

As noted in Note 2, KACo collects management fees from CoLT for providing services necessary for the orderly and proper administration of CoLT. For the years ended June 30, 2023 and 2022, CoLT paid approximately \$232,600 and \$289,200, respectively, to KACo for management fees.

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

Note 19—Related party transactions (continued)

In the fiscal years ended June 30, 2023 and 2022, CoLT entered into agreements with KACo (see Note 2, Administrative Services), in which CoLT pays a quarterly fee to cover all program administration costs paid by KACo. Cash paid to KACo was \$1,278,210 and \$895,458 for the fiscal years ended June 30, 2023 and 2022, respectively. The related expense was \$1,080,037 and \$928,625 for the years ended June 30, 2023 and 2022, respectively. Under the agreement, differences between amounts incurred by CoLT and paid by KACo and the quarterly fee will be trueed up after year-end. As of June 30, 2023 and 2022, CoLT has recorded a prepaid of \$2,673 and \$37,125, respectively, related to the “true-up”.

As of June 30, 2023 and 2022, CoLT owns three KACO Finance Corporation revenue bonds totaling for \$1,250,000 which was purchased with funds held in the Program Administration Fund (see Note 1). The investment is included in other investments in the accompanying consolidated financial statements.

Note 20—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 minimum capital requirements are no longer applicable.

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 \$- and \$761,052 during the fiscal years ended June 30, 2023 and 2022, respectively.

Note 21—CIC assumption agreement and dissolution

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 approved by the Kentucky Department of Insurance on June 28, 2022. Final disposition of the remaining assets and liabilities of CIC occurred during the year ended June 30, 2022.

SUPPLEMENTARY INFORMATION

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

	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	\$ 3,066,481	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,066,481
Trust estate investments	-	4,147	8,116	32,658	266,008	26,715	59,027	42,464	14,367	-	453,502
Escrow accounts	9,154	-	-	69,514	197,236	28,455	-	-	938,911	-	1,243,270
Leases receivable	-	772,000	1,700,000	1,129,234	9,565,947	8,858,017	16,630,000	4,909,230	14,124,000	-	57,688,428
Leases receivable - unrealized appreciation in fair value	-	9,022	120,876	36,166	396,824	209,986	494,484	202,858	53,105	-	1,523,321
Other receivables	108,019	-	-	-	-	-	-	-	-	-	108,019
Intercompany receivables	-	-	-	-	-	-	3,658	-	-	(3,658)	-
Due from affiliate	16,201	-	-	-	-	-	-	-	-	(13,528)	2,673
Notes receivable, net	5,499,469	-	-	-	-	-	-	-	-	-	5,499,469
Other investments	3,554,304	-	-	-	-	-	-	-	-	-	3,554,304
Total Assets	\$ 12,253,628	\$ 785,169	\$ 1,828,992	\$ 1,267,572	\$ 10,426,015	\$ 9,123,173	\$ 17,187,169	\$ 5,154,552	\$ 15,130,383	\$ (17,186)	\$ 73,139,467
LIABILITIES AND NET ASSETS											
Liabilities:											
Accrued interest payable	\$ -	\$ 2,677	\$ 6,336	\$ 4,355	\$ 41,942	\$ 33,783	\$ 55,818	\$ 18,705	\$ 39,815	\$ -	\$ 203,431
Escrows payable	-	93,134	82,293	-	-	-	35,704	97,090	-	-	308,221
Interest rate exchanges	-	9,022	120,876	36,166	396,824	209,986	494,484	202,858	53,105	-	1,523,321
Other accrued expenses	18,104	244	550	3,070	57,970	53,670	7,715	1,595	182,241	(17,186)	307,973
Intercompany payables											
Bonds payable, net	-	767,906	1,679,405	1,144,100	9,742,001	8,849,821	16,599,497	4,885,697	14,095,864	-	57,764,291
Total Liabilities	18,104	872,983	1,889,460	1,187,691	10,238,737	9,147,260	17,193,218	5,205,945	14,371,025	(17,186)	60,107,237
Net assets, unrestricted/retained earnings	12,235,524	(87,814)	(60,468)	79,881	187,278	(24,087)	(6,049)	(51,393)	759,358	-	13,032,230
Total Liabilities and Net Assets	\$ 12,253,628	\$ 785,169	\$ 1,828,992	\$ 1,267,572	\$ 10,426,015	\$ 9,123,173	\$ 17,187,169	\$ 5,154,552	\$ 15,130,383	\$ (17,186)	\$ 73,139,467

See report of independent auditor.

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	-	5,701	8,749	32,098	172,696	30,596	69,364	44,711	9,996	-	373,911
Escrow accounts	9,154	-	-	68,812	206,925	34,773	-	-	975,729	-	1,295,393
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	\$ 1,173,251	\$ 2,088,983	\$ 1,764,451	\$ 12,323,971	\$ 11,018,343	\$ 19,915,427	\$ 5,483,975	\$ 17,724,015	\$ (19,179)	\$ 84,173,712
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
Escrows payable	-	94,774	78,099	-	-	-	35,578	99,109	-	-	307,560
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	1,254,387	2,137,002	1,663,391	12,110,904	10,987,098	19,879,538	5,517,908	16,926,671	(19,179)	70,480,207
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 Net Assets/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	\$ 1,173,251	\$ 2,088,983	\$ 1,764,451	\$ 12,323,971	\$ 11,018,343	\$ 19,915,427	\$ 5,483,975	\$ 17,724,015	\$ (19,179)	\$ 84,173,712

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KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2023

	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
Revenues:											
Investment income	\$ 305,768	\$ 313	\$ 251	\$ 516	\$ 2,455	\$ 2,621	\$ 3,480	\$ 774	\$ 8,002	\$ -	\$ 324,180
Income from leases receivable	6,524	48,652	102,939	55,808	532,710	431,555	834,132	237,435	697,763	-	2,947,518
Credit, administrative and fiduciary fees	866,235	-	-	-	-	-	-	-	-	(175,081)	691,154
Net realized and unrealized losses on investments	204,789	-	-	-	-	-	-	-	-	-	204,789
Total Revenues	1,383,316	48,965	103,190	56,324	535,165	434,176	837,612	238,209	705,765	(175,081)	4,167,641
Expenses:											
Interest	-	52,537	108,658	69,645	512,383	446,123	807,693	235,887	683,509	-	2,916,435
Administrative and other fees	1,552,779	2,240	5,038	3,724	29,418	26,696	50,168	14,276	43,474	(175,081)	1,552,732
Legal fees	156,844	-	-	-	-	-	-	-	-	-	156,844
Trustee fees	115,035	866	1,943	1,437	11,335	10,297	19,351	5,506	16,768	-	182,538
Sponsoring agency fees	1,000	-	-	-	-	-	-	-	-	-	1,000
Lease rebates	-	-	-	2,697	7,818	6,392	2,338	-	-	-	19,245
Provision for income taxes	122	-	-	-	-	-	-	-	-	-	122
Total Expenses	1,825,780	55,643	115,639	77,503	560,954	489,508	879,550	255,669	743,751	(175,081)	4,828,916
Changes in net assets	(442,464)	(6,678)	(12,449)	(21,179)	(25,789)	(55,332)	(41,938)	(17,460)	(37,986)	-	(661,275)
Net assets (deficit), beginning of year	12,677,988	(81,136)	(48,019)	101,060	213,067	31,245	35,889	(33,933)	797,344	-	13,693,505
Net assets (deficit), end of year	\$ 12,235,524	\$ (87,814)	\$ (60,468)	\$ 79,881	\$ 187,278	\$ (24,087)	\$ (6,049)	\$ (51,393)	\$ 759,358	\$ -	\$ 13,032,230

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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 lease 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 gains 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), 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), 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 report of independent auditor.

KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

	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
Cash flows from operating activities:											
Changes in net assets	\$ (442,464)	\$ (6,678)	\$ (12,449)	\$ (21,179)	\$ (25,789)	\$ (55,332)	\$ (41,938)	\$ (17,460)	\$ (37,986)	\$ -	\$ (661,275)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:											
Amortization of debt issuance costs	-	5,496	4,591	3,463	7,725	4,031	4,429	6,835	5,026	-	41,596
Net realized and unrealized gains on other investments	(204,789)	-	-	-	-	-	-	-	-	-	(204,789)
Changes in:											
Other receivables	432,131	-	-	-	-	-	-	-	-	-	432,131
Receivable from affiliate, net	36,445	-	-	-	-	-	-	-	-	(1,993)	34,452
Accrued interest payable	-	1,388	1,753	3,244	23,886	20,127	32,082	10,499	28,243	-	121,222
Other accrued expenses	(4,383)	(120)	(146)	(5,149)	(10,028)	20,703	(5,036)	(102)	(27,730)	1,993	(29,998)
Net cash flows from operating activities	(183,060)	86	(6,251)	(19,621)	(4,206)	(10,471)	(10,463)	(228)	(32,447)	-	(266,661)
Cash flows from investing activities:											
Net proceeds from (purchases of) trust estate investments	-	(86)	4,827	(1,262)	(83,623)	10,199	10,463	228	32,447	-	(26,807)
Lease repayments	-	355,000	170,000	479,819	1,674,707	1,556,185	1,998,416	315,000	2,103,000	-	8,652,127
Net (purchases) proceeds from other investments	(66,234)	-	-	-	-	-	-	-	-	-	(66,234)
Principal repayments on notes receivable	2,888,117	-	-	-	-	-	-	-	-	-	2,888,117
Issuance of notes receivable	(3,181,768)	-	-	-	-	-	-	-	-	-	(3,181,768)
Net cash flows from investing activities	(359,885)	354,914	174,827	478,557	1,591,084	1,566,384	2,008,879	315,228	2,135,447	-	8,265,435
Cash flows from financing activities:											
Payments on bonds	-	(355,000)	(168,576)	(458,936)	(1,586,878)	(1,555,913)	(1,998,416)	(315,000)	(2,103,000)	-	(8,541,719)
Net cash flows from financing activities	-	(355,000)	(168,576)	(458,936)	(1,586,878)	(1,555,913)	(1,998,416)	(315,000)	(2,103,000)	-	(8,541,719)
Net cash and cash equivalents	(542,945)	-	-	-	-	-	-	-	-	-	(542,945)
Cash and cash equivalents, beginning of year	3,609,426	-	-	-	-	-	-	-	-	-	3,609,426
Cash and cash equivalents, end of year	\$ 3,066,481	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,066,481

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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 flows from 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 flows from 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 flows from 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 flows from 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, beginning of year	3,592,270	-	-	-	-	-	-	-	-	1,496,582	-	5,088,852
Cash and cash equivalents, end of year	\$ 3,609,426	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,609,426

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