KENTUCKY LEAGUE OF CITIES
INSURANCE SERVICES ASSOCIATION

Financial Statements and Supplementary Information

Years Ended June 30, 2018 and 2017
with Report of Independent Auditors

CONTENTS

DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors

Board of Trustees
Kentucky League of Cities Insurance Services Association
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky League of Cities Insurance Services Association (KLCIS) which comprise the statements of net position as of June 30, 2018 and 2017, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Board of Trustees
Kentucky League of Cities Insurance Services Association
Report of Independent Auditors, continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky League of Cities Insurance Services Association as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 5 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise KLCIS' basic financial statements. The accompanying supplementary information on pages 24 - 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

The supplementary information on pages 26 - 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Insurance of the Commonwealth of Kentucky. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion on the supplementary information referred to above nor do we provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 19, 2018 on our consideration of KLCIS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KLCIS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KLCIS' internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

October 19, 2018
Lexington, Kentucky

Kentucky League of Cities Insurance Services Association

Management's Discussion and Analysis *(Unaudited)*

Our discussion and analysis of the Kentucky League of Cities (KLC) Insurance Services Association (KLCIS) provides an overview of KLCIS' financial activity for the fiscal year ended June 30, 2018. It should be read in conjunction with the financial statements, which begin on page 6.

Using this Annual Report

This report consists of a series of financial statements, notes to the financial statements, and supplemental information.

Statements of Net Position

Table 1 shows all of the assets and liabilities of KLCIS and is presented on the accrual basis. Total net position increased $4,460,351 for the current fiscal year compared to the increase of $5,796,489 during the prior fiscal year, resulting in an overall increase in net position of 41% since 2016.

Table 1
Net Position

	2018	2017
Cash and investments	$ 73,105,791	$ 64,355,865
Capital and other assets	4,617,466	4,456,277
Total assets	77,723,257	68,812,142
Unpaid losses and loss adjustment expenses	37,282,961	33,754,139
Other liabilities	5,228,569	4,306,627
Total liabilities	42,511,530	38,060,766
Total net position	$ 35,211,727	$ 30,751,376

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows all the revenues and expenses of KLCIS and is also presented on the accrual basis. Net earned premium revenue increased $239,042 or 0.87% from the prior fiscal year. Even though current year investment returns remain favorable, investment revenues decreased slightly, $127,941 or 3.58% from the prior year. Although prior year claims developed at lower than expected amounts returning favorable results, the current year experienced an increase in losses and loss adjustment expenses (see Footnote 6 for details). Both 2018 and 2017 results were very positive. The change in net position was an increase of 23.2% for 2018 and an increase of 14.5% for 2017.

Table 2
Change in Net Position

Year ended June 30,	2018	2017
Net premiums earned	$ 27,699,433	$ 27,460,391
Investment and other revenue and gains	3,442,873	3,570,814
Total revenue	31,142,306	31,031,205
Losses and loss adjustment expenses	15,749,548	14,402,456
General administrative expenses	10,932,407	10,832,260
Total expenses	26,681,955	25,234,716
Change in net position	$ 4,460,351	$ 5,796,489

Description of Current and Expected Conditions

In the last few years, KLCIS has taken measures to fine tune the efforts of loss control, underwriting and claims. Additional resources have been allocated to each of these areas in the form of closer management oversight of third party administrators, a claims awareness campaign by loss control and additional emphasis on membership accountability of results via underwriting activities. KLCIS has conducted training programs specifically designed for newly elected officials, which has helped reduce employment related claims. Additional resources have also been allocated to fine tune the score card program and to equip members with the resources necessary to effectively conduct monthly safety meetings. Management believes the synergistic effect of these three departments has contributed to favorable results. Favorable results are only possible with the continued support and cooperation of the KLCIS membership.

Contacting the Organization's Financial Management

This financial report is designed to provide a general overview of 2018 and to show KLCIS' accountability to its members. If you have any questions about this report or need additional information, contact the Kentucky League of Cities office at 100 East Vine Street, Suite 800, Lexington, KY 40507.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Net Position

June 30, 2018 and 2017

	2018	2017
Assets		
Investment securities, at fair value	$ 67,855,770	$ 56,587,666
Cash and cash equivalents	5,250,021	7,768,199
Accounts receivable, net of allowance for doubtful accounts of $15,900 and $16,000 for 2018 and 2017, respectively	427,176	82,992
Excess insurance recoverable	472,372	997,372
Receivable from related entities, net	637,169	241,950
Accrued investment income	204,513	164,346
Prepaid expenses	2,257,372	2,342,551
Membership in NLC Mutual Insurance Company	618,864	620,037
Property and equipment, net of accumulated depreciation of $437,809 and $430,780 for 2018 and 2017, respectively	-	7,029
Total assets	77,723,257	68,812,142
Liabilities		
Unpaid losses and loss adjustment expenses:		
Reported claims	24,488,673	21,243,799
Incurred but not reported claims	11,358,184	11,288,574
Unallocated loss adjustment expenses	1,436,104	1,221,766
Total unpaid losses and loss adjustment expenses	37,282,961	33,754,139
Accounts payable	577,467	395,380
Advance premiums	4,651,102	3,911,247
Total liabilities	42,511,530	38,060,766
Net Position		
Net position	$ 35,211,727	$ 30,751,376

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2018 and 2017

	2018	2017
Operating revenue:		
Net premiums earned	$ 27,699,433	$ 27,460,391
Operating expenses:		
Losses and loss adjustment expenses	15,749,548	14,402,456
Commission expense	3,276,516	3,252,551
Claims administration expense	1,187,125	1,186,709
Loss prevention expenses	189,354	208,006
Professional fees	594,199	620,995
Administrative fees, related entity	4,979,255	4,774,356
Other expenses	705,958	789,643
Total operating expenses	26,681,955	25,234,716
Operating income	1,017,478	2,225,675
Nonoperating revenue:		
Interest and investment revenue	3,401,074	3,522,826
Other income	41,799	47,988
Total nonoperating revenue	3,442,873	3,570,814
Change in net position	4,460,351	5,796,489
Net position, beginning of year	30,751,376	24,954,887
Net position, end of year	$ 35,211,727	$ 30,751,376

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Premiums collected	$ 28,095,204	$ 27,549,428
Losses and loss adjustment expenses paid	(12,220,726)	(11,727,228)
Underwriting expenses paid	(9,502,469)	(9,074,430)
Other payments	(982,990)	(3,289,886)
Net cash provided by operating activities	5,389,019	3,457,884
Cash flows from investing activities:		
Purchases of investments	(32,081,227)	(44,253,641)
Proceeds from maturity of investments	12,838,864	747,403
Proceeds from sale of investments	8,983,126	38,695,421
Interest, dividends and gains received	2,352,040	1,486,219
Net cash used in investing activities	(7,907,197)	(3,324,598)
Net (decrease) increase in cash and cash equivalents	(2,518,178)	133,286
Cash and cash equivalents, beginning of year	7,768,199	7,634,913
Cash and cash equivalents, end of year	$ 5,250,021	$ 7,768,199

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Cash Flows, continued

Years ended June 30, 2018 and 2017

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,017,478	$ 2,225,675
Adjustments:		
Depreciation	7,029	158,863
(Recovery of) provision for doubtful accounts	(100)	698
Other income	41,799	47,988
Increase (decrease) in cash due to changes in:		
Accounts receivable	(344,084)	(7,664)
Excess insurance recoverable	525,000	5,927
Receivable from related entities, net	(395,219)	341,265
Prepaid expenses	85,179	(2,070,085)
Membership in NLC Mutual Insurance Company	1,173	-
Unpaid losses and loss adjustment expenses	3,528,822	2,675,228
Accounts payable	182,087	(16,712)
Advance premiums	739,855	96,701
Net cash provided by operating activities	$ 5,389,019	$ 3,457,884

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements

1. Description of Organization

Kentucky Municipal Risk Management Association (the Association) was established in April 1987 under the authorization of the Kentucky Interlocal Cooperation Act of the Kentucky Revised Statutes for the purpose of creating and operating various self-insurance, insurance and investment trusts. It is an unincorporated, nonprofit association voluntarily established by the participating cities, urban-county governments and related public agencies and political subdivisions within the Commonwealth of Kentucky. During 2003, the Association changed its name to Kentucky League of Cities Insurance Services Association (KLCIS).

KLCIS has received a Certificate of Filing from the Department of Insurance of the Commonwealth of Kentucky (the Department), but is exempt from most statutory requirements that commercial insurers must follow. KLCIS' general objectives are to formulate, develop and administer, on behalf of the member political subdivisions, a program of insurance liability coverage as well as auto physical damage coverage for participating municipalities (the liability pool). All coverages are written on an occurrence basis. In addition, KLCIS operates a property insurance program for participating municipalities (the property pool). Participation in the liability and property pools included 407 and 402 members, respectively, as of June 30, 2018, and 402 and 363 members, respectively, as of June 30, 2017.

Following is a description of the most significant risks facing property/casualty insurers and how KLCIS mitigates those risks:

Legal/Regulatory Risk

Legal/regulatory risk is the risk that changes in the legal or regulatory environment in which an insurer operates will occur and create additional losses or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those currently recorded in the financial statements. KLCIS is exposed to this risk by writing all of its business in Kentucky, thus increasing its exposure to a single jurisdiction. This risk is reduced by underwriting and loss adjusting practices that identify and minimize the adverse impact of this risk.

Credit Risk

Credit risk is the risk that issuers of securities owned by an insurer will default or that other parties, including excess insurance carriers, that owe the insurer money will not pay. KLCIS minimizes this risk by adhering to a conservative investment strategy, by utilizing financially sound excess insurance carriers, by maintaining credit and collection policies, and by providing an allowance for any amounts deemed uncollectible.

Geographic Risk

Geographic risk is the risk that catastrophic losses will occur in one concentrated area where KLCIS does business. KLCIS writes all of its business in Kentucky. KLCIS mitigates this risk by adhering to specified underwriting practices and by obtaining catastrophic excess insurance coverage.

1. Description of Organization, continued

Interest Rate Risk

Interest rate risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. KLCIS mitigates this risk by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, an insurer would have to sell assets prior to maturity and recognize a gain or loss. KLCIS uses the segmented time distribution method to measure interest rate risk.

2. Summary of Significant Accounting Policies

Basis of Accounting

KLCIS uses the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

KLCIS presents its financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As a proprietary activity, the Fund has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Therefore, the Fund follows GASB pronouncements and all Financial Accounting Standards Board and predecessor boards' pronouncements except those that conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of unpaid losses and loss adjustment expenses. In connection with the determination of unpaid losses and loss adjustment expenses, management uses the methodology described later in this footnote in "Unpaid Losses and Loss Adjustment Expenses."

Management believes that the liability for unpaid losses and loss adjustment expenses is adequate. While management uses available information to estimate unpaid losses and loss adjustment expenses, future changes to the liability may be necessary based on claims experience and changing claims frequency and severity conditions, as well as changes in doctrines of legal liability and damage awards in Kentucky. The future changes will be charged or credited to expenses when they occur.

2. Summary of Significant Accounting Policies, continued

Investment Securities

Investment securities consist of fixed maturity debt and equity securities that KLCIS intends to use as part of its asset/liability management policy and securities that may be sold in response to unexpected liquidity needs.

Investment securities are stated at fair value based, generally, on quoted market prices. Changes in the fair value of investment securities are reported as revenue. The specific identification method is used to determine the cost of securities sold. Realized and unrealized gains and losses are included in interest and investment revenue, under nonoperating revenue.

The investment in the NLC Mutual Insurance Company is carried at cost as required by the Department.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of money market fund investments. For purposes of the statement of cash flows, KLCIS considers all short-term investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

In accordance with accounting principles generally accepted in the insurance industry, KLCIS records audit premiums as of the fiscal year-end in which they were earned. The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible uncollectible accounts based on prior experience. Amounts are charged against the allowance when management determines that collectibility is doubtful.

Property and Equipment

Property and equipment consists of furniture and fixtures, including computer equipment and software net of accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Premium Revenue

Premiums for contracts are recognized as earned on a pro rata basis over the contract period. Advance premiums relate to premiums paid by members for insurance coverage for the subsequent insurance period. Policy coverage is matched with revenue so as to result in recognition of profits over the life of the policies through establishment of reserves for incurred claims.

2. Summary of Significant Accounting Policies, continued

Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses are based on estimates of the ultimate cost of claims (including future claims adjustment expense) that have been reported but not settled, and of claims that have been incurred but not yet reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation and excess insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims cost depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

To reflect its present value, the liability for unpaid losses and loss adjustment expenses has been discounted at 3% for both 2018 and 2017. Discounting reduced the liability by $2,434,000 and $1,818,084 as of June 30, 2018 and 2017, respectively. The effect of discounting on the provision for losses and loss adjustment expenses was a decrease of $615,916 and $238,048 in 2018 and 2017, respectively.

Excess Insurance

Excess insurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the excess insurance contracts. Premiums, losses, and loss adjustment expenses are reported net of excess insurance amounts. KLCIS evaluates the financial condition of its excess insurance carriers to minimize its exposure to significant losses from insolvencies. KLCIS holds funds and collateral as security under excess insurance agreements in the form of letters of credit for any excess insurance carriers not subject to the regulation of the Kentucky Commissioner of Insurance. In the opinion of management, all amounts due from excess insurance carriers at June 30, 2018 and 2017 are recoverable.

Net Position

The Board of Trustees may, at its discretion, refund to members the savings, if any, resulting from operations of KLCIS in the form of dividends or reduced premiums. The amount of any future dividends or reductions in premiums is dependent of KLCIS' ultimate liability for claims incurred and, accordingly, the amount may differ from net position. No refunds were issued during 2018 or 2017.

2. Summary of Significant Accounting Policies, continued

Net Position, continued

KLCIS received initial capital contributions from members to provide start-up surplus. Capital contributions were primarily determined based on a percentage of current annual premiums. Capital contributions are refundable only at the discretion of the Board of Trustees.

In the event of adverse loss experience, KLCIS can assess additional amounts to the members. An assessment would be computed and established by the Board of Trustees with each member's share being in proportion to their annual premiums relative to premiums of all members. There have been no assessments levied since the inception of KLCIS.

Federal Income Taxes

The Internal Revenue Service has ruled that the income of KLCIS is excludable from gross income, and therefore, exempt from taxation pursuant to Internal Revenue Code Section 115, which pertains to instrumentalities of state and local governments.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through October 19, 2018, the date that the financial statements were available to be issued.

3. Deposits and Investments

The composition of KLCIS' investment portfolio must meet certain criteria as set forth in the Kentucky Revised Statues. Investments held by KLCIS as of June 30, 2018 and 2017 are as follows:

	2018	2017
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	$ 1,134,066	$ 1,247,231
Money market mutual funds	4,115,955	6,520,968
	5,250,021	7,768,199
Investments classified as investment securities:		
Certificates of deposit	13,207,442	8,679,483
Corporate bonds	8,070,367	9,522,305
Municipal bonds	5,990,163	5,543,804
Government obligations	1,484,825	-
U.S. government agency obligations	12,208,055	11,796,234
Equity mutual funds	13,875,023	8,778,669
Equity securities	13,019,895	12,267,171
	67,855,770	56,587,666
Total deposits and investments	$ 73,105,791	$ 64,355,865

As of June 30, 2018, KLCIS had the following investment maturities in years:

	Less than 1	1-5	6-10	More than 10
Certificates of deposit	$ 4,200,505	$ 9,006,937	$ -	$ -
Corporate bonds	5,728,247	2,342,120	-	-
Municipal bonds	424,637	4,025,526	-	1,540,000
Government obligations	498,280	986,545	-	-
U.S. government agency obligations	2,489,100	8,360,025	185,897	1,173,033
Total maturities	$ 13,340,769	$ 24,721,153	$ 185,897	$ 2,713,033

3. Deposits and Investments, continued

Interest and investment revenue is comprised of the following for the years ended June 30:

	2018	2017
Interest and dividend income	$ 1,198,366	$ 940,478
Realized gains on sales of securities	1,193,840	565,847
Unrealized gains on securities	1,008,868	2,016,501
	$ 3,401,074	$ 3,522,826

Fair Value

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that GAAP requires or permits in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quotes prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Certificates of deposit are valued at cost which approximates fair value. All of KLCIS's other investments are actively traded and categorized as Level 1 investments in the fair value hierarchy.

Credit Risk

Pursuant to state law, no more that 20% of admitted assets may be invested in medium and lower grade investments; no more than 10% of admitted assets may be invested in lower grade securities; investments with a rating of 5 or 6 from a nationally recognized statistical rating organization (NRSRO) cannot exceed 3% of admitted assets; investments with a rating of 6 from a NRSRO cannot exceed 1% of admitted assets. KLCIS' internal investment policy does not allow the purchase of medium or lower grade investments; however, investments already owned may be retained when the rating drops from high grade to medium or lower grades.

State law and KLCIS' policy both state that total medium and lower grade investments issued, assumed, guaranteed, accepted or insured by any one organization (or as to asset back securities, any interest in a single asset or pool of assets) may not exceed 1% of admitted assets. KLCIS' policy further states that total medium grade holdings tied to a single source shall be limited to 1% of total assets. State law and KLCIS' policy both require that no more than 3% of admitted assets shall be invested in any single asset or, for asset backed securities, any single pool of assets.

3. Deposits and Investments, continued

Credit Risk, continued

State law requires that no individual equity holding shall comprise greater that 10% of the equity portion of the portfolio at the time of purchase. It also states that an investment in an individual holding shall not represent at the time of purchase more that 5% of the market value of the holding. Furthermore, state law requires that investments in equities shall not exceed 20% of the total market value of the portfolio of the self-insurance group at the time of purchase. In addition, mutual funds that are registered investment advisors licensed by the Securities Exchange Commission and Commonwealth of Kentucky to perform investment services are allowable and shall not exceed 20% of the total market value of the portfolio at the time of purchase.

As of June 30, 2018, KLCIS was invested in the following government agency bonds; Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. Of these bonds that were rated, all had either AAA or AA ratings. KLCIS also invested in corporate bonds which ranged in ratings from AA3 to A1. Additional investments included municipal bonds, all of which had AA3 to AAA ratings.

Concentration of Credit Risk

KLCIS does not hold any securities in excess of 5% of total investments.

Custodial Credit Risk - Deposits

KLCIS maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. KLCIS has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk related to cash. Cash equivalents include investments in a money market fund that are not federally insured.

4. Excess Insurance

For 2018 and 2017, KLCIS purchased excess insurance coverage for the liability pool from excess carriers rated "A" (Excellent) and "A+" (Superior) by A.M. Best and Company. The policy is for specific coverage on claims $9,000,000 in excess of $1,000,000 with a $475,000 corridor, and the excess insurance carriers maintain equal participation for the policy. There is also cyber liability coverage in place with a $50,000 retention.

Excess insurance coverage for the property pool is purchased from various excess insurance carriers, each of which has been assigned a rating of "A+" or "A++" (Superior) by A.M. Best and Company. The policy is for specific coverage for claims in excess of $350,000, with a $500,000 corridor. Policy limits vary based upon type and amount of insured risk. Excess insurance premiums are based upon a percentage of direct property pool premium revenue or total insured value.

4. Excess Insurance, continued

Although the purchase of excess insurance coverage does not discharge KLCIS from its primary liability to its members, the excess insurance carrier that assumes the coverage assumes the related liability, and it is the practice of organizations such as KLCIS for accounting purposes to treat insured risks, to the extent of excess insurance coverage, as though they were risks for which KLCIS is not liable. However, KLCIS remains contingently liable in the event its excess insurance carriers are unable to meet their contractual obligations.

Excess insurance premiums ceded were $2,823,395 and $2,824,144 for the years ended June 30, 2018 and 2017, respectively. Additional recoveries accrued on paid claims during 2017 were $43,021. There were no additional recoveries accrued on paid claims during 2018. The liability for unpaid losses and loss adjustment expenses has been reduced to reflect excess insurance recoverables on policy case reserves and estimated recoverables on claims incurred but not reported by $933,190 and $1,196,716 in 2018 and 2017, respectively.

5. Related Party Transactions

The following are related entities of KLCIS:

Kentucky League of Cities (KLC)
Kentucky League of Cities Insurance Agency (KLCIA)
Kentucky League of Cities Premium Finance Company (KLCPFC)
Kentucky League of Cities Unemployment Compensation Reimbursement Trust (KLCUCRT)
Kentucky Local Government Health Trust (KLGHT)
Kentucky League of Cities Workers Compensation Trust (KLCWCT)
Kentucky Bond Corporation (KBC)
Kentucky League of Cities Funding Trust (KLCFT)
Kentucky Bond Development Corporation (KBDC)
Kentucky League of Cities Investment Pool (KLCIP)

KLCIS was organized by KLC at the request of the state municipalities. KLC provides substantially all of KLCIS' operational, management and administrative services in exchange for an administrative fee based on allocated costs plus a percentage of earned premiums. Total administrative fees under the agreement amounted to $4,979,255 and $4,774,356 for the years ended June 30, 2018 and 2017, respectively.

KLCIS participates in a marketing agreement with KLCIA which provides that KLCIS pay a commission for member accounts marketed or serviced by KLCIA. Commission expense under the agreement was $976,738 and $976,512 for the years ended June 30, 2018 and 2017, respectively.

KLCIS' directors' and officers' insurance provides coverage for KLC board members. Also, certain trustees of KLCIS are directors for KLC. KLC serves as administrator of KLCIS.

5. Related Party Transactions, continued

KLCIS reports amounts as being due from or due to related parties. Related party receivables and payables included within KLCIS' statements of net assets consist of the following as of June 30:

	2018	2017
KLC accounts receivable	$ 211,143	$ 129,093
KLCWCT accounts receivable	397,521	450,238
KLCPFC accounts receivable (payable)	28,505	(337,381)
Net receivable from related entities	$ 637,169	$ 241,950

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

6. Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses for the years ended June 30, 2018 and 2017 is summarized as follows:

	Liability Pool		Property Pool	
	2018	2017	2018	2017
Net unpaid losses and loss adjustment expenses, beginning of year	$ **32,174,176**	$ 30,186,267	$ **1,579,963**	$ 892,644
Incurred losses and loss adjustment expenses:				
Provision for insured events of the current year	**14,183,494**	13,056,144	**2,737,325**	2,720,122
(Decrease) increase in provision for insured events of prior years	**(465,281)**	(1,727,597)	**(705,990)**	353,787
Total incurred losses and loss adjustment expenses	**13,718,213**	11,328,547	**2,031,335**	3,073,909
Payments:				
Losses and loss adjustment expenses attributable to insured events of the current year	**2,529,147**	3,895,316	**1,702,818**	1,302,920
Losses and loss adjustment expenses attributable to insured events of prior years	**7,138,831**	5,445,322	**849,930**	1,083,670
Total payments	**9,667,978**	9,340,638	**2,552,748**	2,386,590
Net unpaid losses and loss adjustment expenses, end of year	$ **36,224,411**	$ 32,174,176	$ **1,058,550**	$ 1,579,963

A (decrease) increase in the provision for insured events of prior years signifies that KLCIS expects higher (lower) than anticipated ultimate losses in the final disposition of claims.

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DEAN DORTON ALLEN FORD, PLLC

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report of Independent Auditors

Board of Trustees
Kentucky League of Cities Insurance Services Association
Lexington, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kentucky League of Cities Insurance Services Association (KLCIS), which comprise the statement of net position as of June 30, 2018, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KLCIS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KLCIS' internal control. Accordingly, we do not express an opinion on the effectiveness of KLCIS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether KLCIS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KLCIS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

October 19, 2018
Lexington, Kentucky

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Schedule of Findings and Responses

Year ended June 30, 2018

Section I - Summary of Independent Auditors' Results

Financial Statements:

a. The type of report issued on the financial statements: **Unmodified opinion**

b. Internal control over financial reporting:

Material weaknesses: **No**

Significant deficiencies that are not considered to be material weaknesses: **None noted**

c. Noncompliance which is material to the financial statements: **No**

Section II - Summary of Findings and Responses

None

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Net Position Information

June 30, 2018 and 2017

	2018			2017		
Assets	**Liability Pool**	**Property Pool**	**Total**	Liability Pool	Property Pool	Total
Investment securities, at fair value	$ 67,855,770	$ -	$ 67,855,770	$ 56,587,666	$ -	$ 56,587,666
Cash and cash equivalents	4,958,724	291,297	5,250,021	7,613,003	155,196	7,768,199
Accounts receivable, net	421,890	5,286	427,176	78,845	4,147	82,992
Excess insurance recoverable	447,540	24,832	472,372	972,540	24,832	997,372
Receivable from related entities, net	(11,359,008)	11,996,177	637,169	(9,303,738)	9,545,688	241,950
Accrued investment income	204,513	-	204,513	164,346	-	164,346
Prepaid expenses	289,600	1,967,772	2,257,372	330,600	2,011,951	2,342,551
Membership in NLC Mutual Insurance Company	620,037	(1,173)	618,864	620,037	-	620,037
Property and equipment, net	-	-	-	7,029	-	7,029
Total assets	63,439,066	14,284,191	77,723,257	57,070,328	11,741,814	68,812,142
Liabilities						
Unpaid losses and loss adjustment expenses:						
Reported claims	23,876,177	612,496	24,488,673	20,191,301	1,052,498	21,243,799
Incurred but not reported claims	10,948,701	409,483	11,358,184	10,812,810	475,764	11,288,574
Unallocated loss adjustment expenses	1,399,533	36,571	1,436,104	1,170,065	51,701	1,221,766
Total unpaid loss and loss adjustment expenses	36,224,411	1,058,550	37,282,961	32,174,176	1,579,963	33,754,139
Accounts payable	477,635	99,832	577,467	283,490	111,890	395,380
Advance premiums	3,063,035	1,588,067	4,651,102	2,527,570	1,383,677	3,911,247
Total liabilities	39,765,081	2,746,449	42,511,530	34,985,236	3,075,530	38,060,766
Net Position						
Net position	$ 23,673,985	$ 11,537,742	$ 35,211,727	$ 22,085,092	$ 8,666,284	$ 30,751,376

See report of independent auditors.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Revenues, Expenses and Changes in Net Position Information

Years ended June 30, 2018 and 2017

	2018			2017		
	Liability Pool	Property Pool	Total	Liability Pool	Property Pool	Total
Operating revenue:						
Net premiums earned	$ 20,645,608	$ 7,053,825	$ 27,699,433	$ 20,246,378	$ 7,214,013	$ 27,460,391
Operating expenses:						
Losses and loss adjustment expenses	13,718,213	2,031,335	15,749,548	11,328,547	3,073,909	14,402,456
Commission expense	2,199,988	1,076,528	3,276,516	2,152,526	1,100,025	3,252,551
Claims administration expense	1,066,140	120,985	1,187,125	1,065,724	120,985	1,186,709
Loss prevention expenses	189,299	55	189,354	208,006	-	208,006
Professional fees	403,506	190,693	594,199	427,500	193,495	620,995
Administrative fees, related entity	3,461,728	1,517,527	4,979,255	3,360,894	1,413,462	4,774,356
Other expenses	451,011	254,947	705,958	532,818	256,825	789,643
Total operating expenses	21,489,885	5,192,070	26,681,955	19,076,015	6,158,701	25,234,716
Operating income (loss)	(844,277)	1,861,755	1,017,478	1,170,363	1,055,312	2,225,675
Nonoperating revenue:						
Interest and investment revenue	2,391,578	1,009,496	3,401,074	2,501,176	1,021,650	3,522,826
Other income	41,592	207	41,799	46,850	1,138	47,988
Total nonoperating revenue	2,433,170	1,009,703	3,442,873	2,548,026	1,022,788	3,570,814
Change in net position	1,588,893	2,871,458	4,460,351	3,718,389	2,078,100	5,796,489
Net position, beginning of year	22,085,092	8,666,284	30,751,376	18,366,703	6,588,184	24,954,887
Net position, end of year	$ 23,673,985	$ 11,537,742	$ 35,211,727	$ 22,085,092	$ 8,666,284	$ 30,751,376

See report of independent auditors.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Claims Development Information (*Unaudited*)

Years ended June 30, 2009 through 2018

The following table illustrates how the Association's earned premium revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurance carriers) and other expenses assumed by the Association as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross premium revenue and investment revenue, premium revenue ceded to excess insurance carriers, and net earned premium revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of the Association including overhead and claims expense not allocable to individual claims. (3) This line shows the Association's gross incurred claims and allocated claims adjustment expenses, claims assumed by excess insurance carriers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported as of the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest reestimated amount of claims assumed by excess insurance carriers as of the end of the current year for each accident year. (6) This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.) (7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

		Liability Pool									
		Fiscal and Policy Year Ended									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
(1)	Earned premium revenue and net investment income:										
	Earned	$ 18,807,426	$ 20,240,270	$ 19,402,472	$ 17,728,986	$ 19,521,227	$ 22,502,660	$ 21,464,533	$ 22,000,552	$ 23,593,483	$ 23,814,250
	Ceded	4,122,608	4,067,453	2,348,135	1,485,434	1,509,347	861,673	814,264	851,204	845,929	849,731
	Net earned	14,684,818	16,172,817	17,054,337	16,243,552	18,011,880	21,640,987	20,650,269	21,149,348	22,747,554	22,964,519
(2)	Unallocated expenses	6,251,928	6,217,737	5,706,601	5,884,973	6,310,423	6,836,321	7,525,621	7,480,663	7,747,468	7,771,671
(3)	Estimated incurred claims and expenses, end of policy year:										
	Incurred	11,820,345	10,948,096	13,735,833	11,620,409	9,359,780	10,029,264	12,181,056	13,229,616	13,195,056	14,183,494
	Ceded	51,959	-	249,000	130,886	-	-	425,000	-	138,912	-
	Net incurred	11,768,386	10,948,096	13,486,833	11,489,523	9,359,780	10,029,264	11,756,056	13,229,616	13,056,144	14,183,494
(4)	Net paid (cumulative) as of:										
	End of policy year	2,193,272	2,073,659	2,397,494	2,267,471	2,245,611	2,229,692	2,488,279	2,679,200	3,895,316	2,389,274
	One year later	4,485,626	3,734,092	4,078,942	3,323,205	3,932,110	3,847,541	5,223,559	4,019,764	5,411,940	
	Two years later	6,811,105	5,184,363	5,723,276	4,675,177	5,407,484	5,904,331	7,236,954	5,843,486		
	Three years later	8,026,920	6,318,177	7,729,545	6,688,323	6,887,349	6,905,679	8,224,816			
	Four years later	8,397,695	7,223,279	8,990,587	7,875,513	7,386,127	7,658,331				
	Five years later	8,624,283	7,543,732	9,438,204	8,241,631	8,560,213					
	Six years later	8,709,241	9,089,843	9,586,926	8,452,187						
	Seven years later	8,969,183	9,356,822	10,199,042							
	Eight years later	9,056,245	9,602,861								
	Nine years later	9,153,987									
(5)	Reestimated ceded claims and expenses	1,721,835	1,081,290	590,260	149,652	-	-	422,544	-	66,509	-
(6)	Reestimated net incurred claims and expenses:										
	End of policy year	11,768,386	10,948,096	13,486,833	11,489,523	9,359,780	10,029,264	11,756,056	13,229,616	13,056,144	14,183,494
	One year later	11,603,798	10,904,727	11,919,014	9,343,837	10,253,312	11,255,500	12,131,029	11,469,116	15,703,315	
	Two years later	10,604,964	9,873,631	11,263,749	8,958,107	9,117,285	11,003,103	12,259,293	10,345,283		
	Three years later	9,986,558	9,549,700	12,005,526	8,310,205	10,276,155	10,070,777	12,267,550			
	Four years later	9,972,893	9,224,757	11,400,353	8,794,676	11,194,089	9,100,186				
	Five years later	9,888,401	8,801,271	10,848,271	9,094,724	10,524,549					
	Six years later	9,627,094	9,793,901	10,681,046	9,354,562						
	Seven years later	9,246,988	9,768,836	10,548,757							
	Eight years later	9,226,709	9,996,042								
	Nine years later	9,330,132									
(7)	Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	(2,438,254)	(952,054)	(2,938,076)	(2,134,961)	1,164,769	(929,078)	511,494	(2,884,333)	2,647,171	-

See report of independent auditors.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION
Claims Development Information (*Unaudited*)
Years ended June 30, 2009 through 2018

The following table illustrates how the Association's earned premium revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurance carriers) and other expenses assumed by the Association as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross premium revenue and investment revenue, premium revenue ceded to excess insurance carriers, and net earned premium revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of the Association including overhead and claims expense not allocable to individual claims. (3) This line shows the Association's gross incurred claims and allocated claims adjustment expenses, claims assumed by excess insurance carriers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported as of the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest reestimated amount of claims assumed by excess insurance carriers as of the end of the current year for each accident year. (6) This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.) (7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

		Property Pool									
		Fiscal and Policy Year Ended									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
(1)	Earned premium revenue and net investment income:										
	Earned	$ 6,365,897	$ 6,902,352	$ 6,136,090	$ 5,534,204	$ 6,133,375	$ 8,148,857	$ 8,152,127	$ 9,100,112	$ 10,213,878	$ 10,009,141
	Ceded	1,292,868	1,646,914	1,724,440	2,063,778	2,286,341	2,125,202	2,237,618	2,295,387	1,978,215	1,973,665
	Net earned	5,073,029	5,255,438	4,411,650	3,470,426	3,847,034	6,023,655	5,914,509	6,804,725	8,235,663	8,035,476
(2)	Unallocated expenses	2,561,715	2,856,688	2,456,688	2,136,191	2,282,273	2,851,889	3,130,393	2,935,126	3,084,791	3,160,734
(3)	Estimated incurred claims and expenses, end of policy year:										
	Incurred	3,371,656	3,698,518	2,386,715	2,957,840	1,100,694	2,286,732	3,649,540	1,877,474	2,720,122	2,737,325
	Ceded	1,255,272	1,942,800	315,968	1,340,035	-	-	587,832	-	-	-
	Net incurred	2,116,384	1,755,718	2,070,747	1,617,805	1,100,694	2,286,732	3,061,708	1,877,474	2,720,122	2,737,325
(4)	Net paid (cumulative) as of:										
	End of policy year	1,140,915	1,096,057	952,262	1,040,802	600,248	1,304,738	1,933,426	1,207,446	1,302,920	1,702,818
	One year later	2,031,162	1,690,691	2,041,327	1,659,994	965,289	2,186,741	2,781,374	1,873,956	2,059,648	
	Two years later	2,066,094	1,938,334	2,207,441	1,756,055	968,967	2,043,484	2,891,379	1,873,956		
	Three years later	2,113,937	1,993,774	2,211,774	1,793,232	968,967	2,040,812	2,978,303			
	Four years later	2,113,809	1,993,654	2,211,774	1,789,956	968,967	2,041,916				
	Five years later	2,113,809	1,992,924	2,211,774	1,789,955	968,967					
	Six years later	2,113,810	1,992,510	2,211,774	1,789,956						
	Seven years later	2,113,810	1,992,102	2,211,774							
	Eight years later	2,113,810	1,991,854								
	Nine years later	2,113,810									
(5)	Reestimated ceded claims and expenses	1,753,250	1,749,171	502,104	1,868,930	-	-	442,871	-	-	-
(6)	Reestimated net incurred claims and expenses:										
	End of policy year	2,116,384	1,755,718	2,070,747	1,617,805	1,100,694	2,286,732	3,061,708	1,877,474	2,720,122	2,737,325
	One year later	2,243,833	1,745,691	2,466,884	2,183,207	1,029,175	2,324,199	2,930,486	1,891,215	2,060,648	
	Two years later	2,091,094	1,953,677	2,221,685	2,056,055	968,967	2,050,175	2,992,119	1,873,956		
	Three years later	2,113,937	1,993,774	2,211,774	1,793,586	968,967	2,042,958	2,978,303			
	Four years later	2,113,809	1,993,654	2,211,774	1,789,956	968,967	2,041,916				
	Five years later	2,113,809	1,992,925	2,211,774	1,789,956	968,967					
	Six years later	2,113,809	1,993,694	2,211,774	1,789,956						
	Seven years later	2,113,810	1,993,214	2,211,774							
	Eight years later	2,113,810	1,991,854								
	Nine years later	2,113,810									
(7)	Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	(2,574)	236,136	141,027	172,151	(131,727)	(244,816)	(83,405)	(3,518)	(659,474)	-

See report of independent auditors.