

**KENTUCKY LEAGUE OF CITIES  
INSURANCE SERVICES ASSOCIATION  
Financial Statements and Supplementary Information**

*Years Ended June 30, 2012 and 2011  
with Independent Auditors' Report Thereon*

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DEAN || DORTON || ALLEN || FORD<sub>pa</sub>**Independent Auditors' Report**

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

We have audited the accompanying statement of net assets of Kentucky League of Cities Insurance Services Association (KLCIS) as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of KLCIS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of KLCIS as of and for the year ended June 30, 2011, were audited by other auditors whose report, dated October 26, 2011, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KLCIS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of KLCIS as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2012 on our consideration of KLCIS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-4 be presented to supplement the basic financial statements. Such information, although not a 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

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in the United States of America, which consisted of inquires 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 audit 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the KLCIS' 2012 financial statements. The supplementary information on pages 21 - 22 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The 2012 information has been subjected to the auditing procedures applied in the audit of the 2012 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 information is fairly stated in all material respects in relation to the 2012 financial statements as a whole. The supplementary information for the year ended June 30, 2011, was audited by other auditors whose report, dated October 26, 2011, expressed an unqualified opinion on such information in relation to the financial statements as a whole.

The supplementary information on page 23 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has not been subjected to the auditing procedures applied in the audits of the financial statements. Accordingly, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

*Dean Dotson Allen Ford, PLLC*

October 8, 2012  
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 Insurance Services Association (KLCIS) provides an overview of KLCIS' financial activity for the fiscal year ended June 30, 2012. It should be read in conjunction with the financial statements, which begin on page 5.

Using this Annual Report

This report consists of a series of financial statements. The statements of net assets on page 5 provides information about KLCIS as a whole.

Statements of Net Assets

Table 1 shows all of the assets and liabilities of KLCIS and is presented on the accrual basis. The total net assets increased \$1,720,864 for the current fiscal year, compared to the increase of \$908,753 during the prior fiscal year. The current year's increase was largely attributable to favorable loss development in prior fund years.

**Table 1**  
**Net Assets**

	<u>2012</u>	<u>2011</u>
Cash and investments	\$ 31,589,253	\$ 31,936,445
Capital and other assets	<u>9,512,773</u>	<u>7,196,889</u>
Total assets	41,102,026	39,133,334
Unpaid losses and loss adjustment expenses	26,671,988	27,399,505
Other liabilities	<u>3,370,364</u>	<u>2,395,019</u>
Total liabilities	<u>30,042,352</u>	<u>29,794,524</u>
Total net assets	<u>\$ 11,059,674</u>	<u>\$ 9,338,810</u>

Kentucky League of Cities Insurance Services Association

Management's Discussion and Analysis (Unaudited), continued

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows all the revenues and expenses of KLCIS and is also presented on the accrual basis. Net earned premium revenue decreased \$433,913 or 2.24% from the prior fiscal year. Total investment related revenues decreased \$1,309,079 or 61.45%, due to a decrease in realized gains and an increase in unrealized losses in the current fiscal year. Total loss and loss adjustment expenses for prior fund years were less than expected, resulting in a decrease of \$2,412,849. General administrative expenses decreased by 1.74% compared to fiscal year 2011.

**Table 2**  
**Change in Net Assets**

Year ended June 30,	<u>2012</u>	<u>2011</u>
Net premiums earned	\$ 18,928,092	\$ 19,362,005
Investment and other revenue and gains	<u>821,388</u>	<u>2,130,467</u>
Total revenue	19,749,480	21,492,472
Losses and loss adjustment expenses	10,007,451	12,420,300
General administrative expenses	<u>8,021,165</u>	<u>8,163,419</u>
Total expenses	<u>18,028,616</u>	<u>20,583,719</u>
Change in net assets	\$ <u>1,720,864</u>	\$ <u>908,753</u>

Description of Current and Expected Conditions

KLCIS has changed claims systems and is currently changing underwriting systems. This change in platform should allow for efficiency gains and provide for more robust reporting capabilities.

The KLC Executive Board hired Jonathan Steiner as KLC Executive Director effective November 2010, Doug Goforth as Chief Insurance Services Officer effective January 2011 and Dawn Harlow as Chief Financial Officer effective April 2012.

Contacting the Organization's Financial Management

This financial report is designed to provide a general overview of 2012's finances and to show the 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 Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Investment securities, at fair value	\$ 29,131,857	\$ 30,157,567
Cash and cash equivalents	2,457,396	1,778,878
Accounts receivable, net of allowance for doubtful accounts of \$30,000 in both 2012 and 2011	160,670	203,465
Reinsurance receivable	2,174,913	847,012
Receivable from related entities	5,868,927	4,873,747
Accrued investment income	149,170	179,945
Prepaid expenses	274,850	383,973
Membership in NLC Mutual Insurance Company	620,037	620,037
Property and equipment, net of accumulated depreciation of \$1,100,223 and \$1,059,543 for 2012 and 2011, respectively	<u>264,206</u>	<u>88,710</u>
Total assets	<u>\$ 41,102,026</u>	<u>\$ 39,133,334</u>
<b>Liabilities and Net Assets</b>		
Unpaid losses and loss adjustment expenses:		
Reported claims	\$ 13,518,810	\$ 12,752,192
Incurred but not reported claims	12,312,836	13,717,661
Unallocated loss adjustment expenses	<u>840,342</u>	<u>929,652</u>
Total unpaid losses and loss adjustment expenses	26,671,988	27,399,505
Accounts payable	177,837	147,817
Advance premiums	<u>3,192,527</u>	<u>2,247,202</u>
Total liabilities	30,042,352	29,794,524
Net assets	<u>11,059,674</u>	<u>9,338,810</u>
Total liabilities and net assets	<u>\$ 41,102,026</u>	<u>\$ 39,133,334</u>

*See accompanying notes.*

**KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION**

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue:		
Net premiums earned	\$ 18,928,092	\$ 19,362,005
Operating expenses:		
Losses and loss adjustment expenses	10,007,451	12,420,300
Commission expense	2,633,600	2,633,801
Claims administration expense	1,060,444	1,007,014
Loss prevention expenses	223,531	251,072
Professional fees	250,983	383,958
Administrative fees, related entity	3,539,918	3,564,877
Other expenses	<u>312,689</u>	<u>322,697</u>
Total operating expenses	<u>18,028,616</u>	<u>20,583,719</u>
Operating income (loss)	899,476	(1,221,714)
Nonoperating revenue:		
Interest and investment revenue and gains	785,886	2,103,981
Other income	<u>35,502</u>	<u>26,486</u>
Total nonoperating revenue	<u>821,388</u>	<u>2,130,467</u>
Change in net assets	1,720,864	908,753
Net assets, beginning of year	<u>9,338,810</u>	<u>8,430,057</u>
Net assets, end of year	<u>\$ 11,059,674</u>	<u>\$ 9,338,810</u>

*See accompanying notes.*



**KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION**

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Premiums collected	\$ 19,916,212	\$ 17,519,106
Losses and loss adjustment expenses paid	(10,734,968)	(10,255,619)
Underwriting expenses paid	(9,780,574)	(5,880,635)
Other payments	<u>(383,849)</u>	<u>(635,448)</u>
Net cash (used in) provided by operating activities	(983,179)	747,404
<b>Cash flows from investing activities:</b>		
Purchases of investments	(24,303,140)	(40,024,346)
Proceeds from maturity of investments	7,459,370	3,009,158
Proceeds from sale of investments	17,744,261	35,149,461
Interest and dividends received	<u>941,880</u>	<u>826,136</u>
Net cash provided by (used in) investing activities	1,842,371	(1,039,591)
<b>Cash flows from capital and related financing activities:</b>		
Purchase of property and equipment	(216,176)	-
Other	<u>35,502</u>	<u>26,486</u>
Net cash (used in) provided by financing activities	<u>(180,674)</u>	<u>26,486</u>
Net increase (decrease) in cash and cash equivalents	678,518	(265,701)
Cash and cash equivalents, beginning of year	<u>1,778,878</u>	<u>2,044,579</u>
Cash and cash equivalents, end of year	<u>\$ 2,457,396</u>	<u>\$ 1,778,878</u>

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Cash Flows, continued

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:</b>		
Operating income (loss)	\$ 899,476	\$ (1,221,714)
Adjustments:		
Depreciation	40,680	35,329
Provision for doubtful accounts	-	36
Increase (decrease) in cash due to changes in:		
Accounts receivable	42,795	57,603
Reinsurance receivable	(1,327,901)	214,984
Receivable from related entity	(995,180)	1,346,829
Prepaid expenses	109,123	251,224
Unpaid losses and loss adjustment expenses	(727,517)	2,164,681
Accounts payable	30,020	(201,030)
Advance premiums	<u>945,325</u>	<u>(1,900,538)</u>
Net cash (used in) provided by operating activities	\$ <u>(983,179)</u>	\$ <u>747,404</u>

See accompanying notes.

# KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

## Notes to the Financial Statements

### 1. Description of Organization

Kentucky Municipal Risk Management 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 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 376 and 329 members, respectively, as of June 30, 2012, and 405 and 356 members, respectively, as of June 30, 2011.

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 reinsurers, that owe the insurer money will not pay. KLCIS minimizes this risk by adhering to a conservative investment strategy, by utilizing financially sound reinsurers, by maintaining credit and collection policies, and by providing an allowance for any amounts deemed uncollectible.

# KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

## Notes to the Financial Statements, continued

### 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.

#### 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 reinsurance coverage.

### 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, KLCIS has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Therefore, KLCIS follows GASB pronouncements, Financial Accounting Standards Board (FASB) and predecessor boards' pronouncements issued on or before November 30, 1989, 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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. 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."

## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### Use of Estimates, continued

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.

##### 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 Kentucky Department of Insurance.

##### 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 collectability 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.

## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### 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.

##### 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 reinsurance 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 2012 and 2011. Discounting reduced the liability by \$1,616,716 and \$1,635,081 as of June 30, 2012 and 2011, respectively. The effect of discounting on the provision for losses and loss adjustment expenses was an increase of \$18,365 in 2012 and decrease of \$184,096 in 2011.

##### Reinsurance

Reinsurance 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 reinsurance contracts. Premiums, losses, and loss adjustment expenses are reported net of reinsured amounts. KLCIS evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. KLCIS holds funds and collateral as security under reinsurance agreements in the form of letters of credit for any reinsurers not subject to the regulation of the Kentucky Commissioner of Insurance. In the opinion of management, all amounts due from reinsurers at June 30, 2012 and 2011 are recoverable.

## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### Net Assets

KLCIS' 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 assets.

KLCIS has 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. No refunds were issued during 2012 or 2011.

##### 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 8, 2012, the date that the financial statements were available to be issued. There were no events occurring during the evaluation period that require recognition or disclosure in the financial statements.

**KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION**

Notes to the Financial Statements, continued

**3. Deposits and Investments**

The composition of KLCIS' investment portfolio must meet certain criteria as set forth in the Kentucky Revised Statutes. Investments held by KLCIS as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	\$ 753,382	\$ 145,094
Money market mutual funds	<u>1,704,014</u>	<u>1,633,784</u>
	<b>2,457,396</b>	<b>1,778,878</b>
Investments classified as investment securities:		
Certificates of deposit	1,494,175	-
Corporate bonds	8,099,277	6,779,121
Municipal bonds	6,823,067	7,248,969
U.S. government agency obligations	6,834,824	9,695,284
Equity mutual funds	2,547,801	2,832,671
Equity securities	3,332,713	3,472,742
Miscellaneous	<u>-</u>	<u>128,780</u>
	<u>29,131,857</u>	<u>30,157,567</u>
Total deposits and investments	<u>\$ 31,589,253</u>	<u>\$ 31,936,445</u>

As of June 30, 2012 KLCIS had the following investment maturities in years:

	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Certificates of deposit	\$ -	\$ 1,494,175	\$ -	\$ -
Corporate bonds	766,913	4,442,448	2,399,616	490,300
Municipal bonds	1,017,631	5,004,272	801,164	-
U.S. government agency obligations	<u>-</u>	<u>3,535,191</u>	<u>1,283,513</u>	<u>2,016,120</u>
Total maturities	<u>\$ 1,784,544</u>	<u>\$ 14,476,086</u>	<u>\$ 4,484,293</u>	<u>\$ 2,506,420</u>



## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

### Notes to the Financial Statements, continued

#### 3. Deposits and Investments, continued

Interest and investment revenue is comprised of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 775,583	\$ 761,773
Realized gains on sales of securities	135,522	469,400
Unrealized (losses) gains on securities	<u>(125,219)</u>	<u>872,808</u>
	<u>\$ 785,886</u>	<u>\$ 2,103,981</u>

#### Credit Risk

Pursuant to state law, no more than 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 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.

State law requires that no individual equity holding shall comprise greater than 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 than 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, 2012, KLCIS was invested in the following government agency bonds; Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Government National Mortgage Association. Of these bonds that were rated, all had AAA ratings. KLCIS also invested in corporate bonds which ranged in ratings from B to AA2. Additional investments included U.S. Treasury notes and bonds, bond mutual funds, and municipal bonds, all of which had AA2 to AAA ratings.

## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

### Notes to the Financial Statements, continued

#### 3. Deposits and Investments, continued

##### Concentration of Credit Risk

More than 5% of KLCIS' investments are in securities issued by the Federal National Mortgage Association. These investments represented 6% of KLCIS' 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. Reinsurance Coverage

For 2012 and 2011, KLCIS purchased reinsurance coverage for the liability pool from one reinsurance carrier rated "A" (Excellent) by A.M. Best and Company. The policy is for specific coverage on claims \$9,000,000 in excess of \$1,000,000.

Reinsurance coverage for the property pool is purchased from various reinsurers, each of which has been assigned a rating of "A" (Excellent) by A.M. Best and Company. In addition to specific excess of loss reinsurance for claims in excess of \$350,000, the property pool also maintains aggregate reinsurance coverage. Policy limits vary based upon type and amount of insured risk. Reinsurance premiums are based upon a percentage of direct property pool premium revenue or total insured value.

Although the purchase of reinsurance coverage does not discharge KLCIS from its primary liability to its members, the reinsurance company 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 reinsurance coverage, as though they were risks for which KLCIS is not liable. However, KLCIS remains contingently liable in the event its reinsurers are unable to meet their contractual obligations.

Reinsurance premiums ceded were \$3,549,212 and \$4,072,575 for the years ended June 30, 2012 and 2011, respectively. Additional recoveries accrued on paid claims during 2012 and 2011 were \$1,781,331 and \$1,587,220, respectively. The liability for unpaid losses and loss adjustment expenses has been reduced to reflect reinsurance recoverables on policy case reserves and estimated recoverables on claims incurred but not reported by \$1,270,227 and \$967,322 in 2012 and 2011, respectively.

## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

### 5. Related Party Transactions

The following entities are KLCIS related entities:

- 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 League of Cities Workers Compensation Trust (KLCWCT)
- Kentucky School Boards Insurance Trust Workers Compensation Fund (KSBITWCF)
- Kentucky School Boards Insurance Trust Property and Liability Fund (KSBITPLF)

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 \$3,539,918 and \$3,564,877 for the years ended June 30, 2012 and 2011, respectively.

KLCIS participates in a marketing agreement with Kentucky League of Cities Insurance Agency (the Agency) which provides that KLCIS pay a commission for member accounts marketed or serviced by the Agency. Commission expense under the agreement was \$759,579 and \$682,089 for the years ended June 30, 2012 and 2011, 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.

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:

	<u>2012</u>	<u>2011</u>
KLC accounts receivable	\$ 227,711	\$ 824,176
KLCUCRT accounts receivable	997,385	786,201
KLCWCT accounts receivable	4,584,260	3,509,820
KLCPFC accounts receivable (payable)	330,875	(162,150)
KLCIA accounts payable	<u>(271,304)</u>	<u>(84,300)</u>
 Total due from related entities	 \$ <u>5,868,927</u>	 \$ <u>4,873,747</u>

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, 2012 and 2011 is summarized as follows:

	<u>Liability Pool</u>		<u>Property Pool</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net unpaid losses and loss adjustment expenses, beginning of year	\$ 26,294,170	\$ 24,500,966	\$ 1,105,335	\$ 733,858
Incurred losses and loss adjustment expenses:				
Provision for insured events of the current year	10,859,459	13,486,832	1,617,805	2,070,747
(Decrease) increase in provision for insured events of prior years	<u>(3,404,211)</u>	<u>(3,128,899)</u>	<u>934,398</u>	<u>(8,380)</u>
Total incurred losses and loss adjustment expenses	7,455,248	10,357,933	2,552,203	2,062,367
Payments:				
Losses and loss adjustment expenses attributable to insured events of the current year	2,267,470	2,397,494	1,040,802	842,088
Losses and loss adjustment expenses attributable to insured events of prior years	<u>5,862,690</u>	<u>6,167,235</u>	<u>1,564,006</u>	<u>848,802</u>
Total payments	<u>8,130,160</u>	<u>8,564,729</u>	<u>2,604,808</u>	<u>1,690,890</u>
Net unpaid losses and loss adjustment expenses, end of year	\$ <u>25,619,258</u>	\$ <u>26,294,170</u>	\$ <u>1,052,730</u>	\$ <u>1,105,335</u>

An increase (decrease) 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.

7. Commitments and Contingencies

KLCIS is the guarantor for an irrevocable standing letter of credit with a bank for a related party. The letter of credit permitted borrowings of \$3.3 million as of June 30, 2012. As of June 30, 2012 and 2011, no amounts were outstanding under the letter of credit. The investments of KLCIS are used as collateral for the letter of credit.

DEAN || DORTON || ALLEN || FORD<sub>pa</sub>**Independent Auditors' 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***

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

We have audited the financial statements of Kentucky League of Cities Insurance Services Association (KLCIS) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 8, 2012. We conducted our audit 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.

**Internal Control Over Financial Reporting**

Management of KLCIS is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered KLCIS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KLCIS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KLCIS' internal control over financial reporting.

*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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether KLCIS' financial statements are free of 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*.

We noted certain matters we reported to management of KLCIS in a separate letter dated October 8, 2012.

This report is intended solely for the information and use of the Board of Trustees, the audit committee and management of KLCIS, and the Department of Insurance of the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

*Dean Dotson Allen Ford, PLLC*

October 8, 2012  
Lexington, Kentucky

## Supplementary Information

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Net Assets Information

June 30, 2012 and 2011

2011

2012

Assets	2012		2011	
	Liability Pool	Property Pool	Total	Total
Investment securities, at fair value	\$ 29,131,857	\$ -	\$ 29,131,857	\$ 30,157,567
Cash and cash equivalents	2,457,396	-	2,457,396	1,778,878
Accounts receivable, net	117,989	42,681	160,670	203,465
Reinsurance receivable	553,124	1,621,789	2,174,913	847,012
Receivable from related entities	2,762,653	3,106,274	5,868,927	4,873,747
Accrued investment income	149,170	-	149,170	179,945
Prepaid expenses	168,072	106,778	274,850	383,973
Membership in NLC Mutual Insurance Company	620,037	-	620,037	620,037
Property and equipment, net	237,936	26,270	264,206	88,710
Total assets	\$ 36,198,234	\$ 4,903,792	\$ 41,102,026	\$ 39,133,334

Liabilities and Net Assets

Unpaid losses and loss adjustment expenses:				
Reported claims	\$ 12,820,811	\$ 697,999	\$ 13,518,810	\$ 12,752,192
Incurred but not reported claims	11,970,097	342,739	12,312,836	13,717,661
Unallocated loss adjustment expenses	828,350	11,992	840,342	929,652
Total unpaid loss and loss adjustment expenses	25,619,258	1,052,730	26,671,988	27,399,505
Accounts payable	121,851	55,986	177,837	147,817
Advance premiums	2,239,614	952,913	3,192,527	2,247,202
Total liabilities	27,980,723	2,061,629	30,042,352	29,794,524
Net assets	8,217,511	2,842,163	11,059,674	9,338,810
Total liabilities and net assets	\$ 36,198,234	\$ 4,903,792	\$ 41,102,026	\$ 39,133,334

See independent auditors' report.



KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Revenues, Expenses and Changes in Net Assets Information

Years ended June 30, 2012 and 2011

	2012		2011	
	<u>Liability Pool</u>	<u>Property Pool</u>	<u>Liability Pool</u>	<u>Property Pool</u>
	Total	Total	Total	Total
Operating revenue:				
Net premiums earned	\$ 15,515,790	\$ 3,412,302	\$ 15,246,070	\$ 4,115,935
Operating expenses:				
Losses and loss adjustment expenses	7,455,248	2,552,203	10,357,933	2,062,367
Commission expense	1,693,791	939,809	1,657,353	976,448
Claims administration expense	929,089	131,355	788,565	218,449
Loss prevention expenses	223,531	-	250,267	805
Professional fees	104,243	146,740	115,849	268,109
Administrative fees, related entity	2,681,417	858,501	2,646,653	918,224
Other expenses	252,903	59,786	247,915	74,782
Total operating expenses	<u>13,340,222</u>	<u>4,688,394</u>	<u>16,064,535</u>	<u>4,519,184</u>
Operating income (loss)	2,175,568	(1,276,092)	(818,465)	(403,249)
Nonoperating revenue:				
Interest and investment revenue and gains	727,762	58,124	1,808,267	295,714
Other income	33,934	1,568	21,588	4,898
Total nonoperating revenue	<u>761,696</u>	<u>59,692</u>	<u>1,829,855</u>	<u>300,612</u>
Change in net assets	2,937,264	(1,216,400)	1,011,390	(102,637)
Net assets, beginning of year	5,280,247	4,058,563	4,268,857	4,161,200
Net assets, end of year	<u>\$ 8,217,511</u>	<u>\$ 2,842,163</u>	<u>\$ 5,280,247</u>	<u>\$ 4,058,563</u>
				<u>\$ 9,338,810</u>

See independent auditors' report.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Claims Development Information (Unaudited)

Years ended June 30, 2003 through 2012

The following table illustrates how the Association's earned premium revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) 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 reinsurers, 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 reinsurers, 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 reinsurers 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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(1) Earned premium revenue and net investment income:										
Earned	\$ 11,358,250	\$ 16,973,665	\$ 19,765,935	\$ 20,200,768	\$ 22,961,726	\$ 21,786,096	\$ 18,807,426	\$ 20,240,270	\$ 19,402,472	\$ 17,738,986
Ceded	2,354,396	3,421,917	3,307,028	3,736,606	4,376,166	4,565,945	4,122,608	4,067,453	2,348,135	1,465,434
Net earned	9,003,854	13,501,748	16,458,907	16,464,162	18,585,560	17,220,151	14,684,818	16,172,817	17,054,337	16,243,552
(2) Unallocated expenses	3,001,085	3,218,607	4,416,830	4,988,671	5,866,615	6,426,405	6,251,928	6,217,737	5,706,601	5,884,973
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	8,468,065	8,478,150	8,514,460	8,748,208	10,534,883	11,689,774	11,768,385	10,948,096	13,486,832	4,527,857
Ceded	201,324	74,476	-	-	-	-	-	-	-	-
Net incurred	8,266,741	8,403,674	8,514,460	8,748,208	10,534,883	11,689,774	11,768,385	10,948,096	13,486,832	4,527,857
(4) Net paid (cumulative) as of:										
End of policy year	1,621,094	1,997,396	1,769,419	1,872,350	2,048,829	2,413,020	2,193,272	2,073,659	2,327,494	2,267,470
One year later	3,324,421	3,596,628	2,904,133	4,269,039	3,953,727	4,589,949	4,449,503	3,934,091	4,078,942	-
Two years later	4,362,749	4,936,773	4,297,486	6,264,229	5,408,436	6,925,392	6,777,006	5,184,363	-	-
Three years later	4,987,462	5,786,878	7,022,278	7,361,262	6,929,353	8,482,193	7,944,206	-	-	-
Four years later	6,440,972	6,932,750	8,336,391	8,651,218	7,595,630	9,471,504	-	-	-	-
Five years later	6,660,604	7,977,979	8,471,800	8,763,106	7,704,053	-	-	-	-	-
Six years later	6,768,712	8,059,738	8,658,858	9,007,734	-	-	-	-	-	-
Seven years later	6,840,646	8,118,286	8,735,381	-	-	-	-	-	-	-
Eight years later	6,869,226	8,121,637	-	-	-	-	-	-	-	-
Nine years later	6,926,852	-	-	-	-	-	-	-	-	-
(5) Reestimated ceded claims and expenses	1,225,498	-	855,518	579,834	-	-	-	-	-	-
(6) Reestimated net incurred claims and expenses:										
End of policy year	8,266,741	8,403,674	8,514,460	8,748,208	10,534,883	11,689,774	11,768,385	10,948,096	13,486,832	4,527,857
One year later	7,303,870	7,999,959	7,992,200	9,192,945	9,306,548	11,940,064	11,603,798	10,904,727	8,622,793	-
Two years later	7,764,955	7,721,014	8,265,582	9,704,319	9,453,663	12,129,275	10,604,964	8,276,099	-	-
Three years later	8,455,451	8,136,219	9,005,291	9,417,554	8,999,121	11,189,006	9,050,356	-	-	-
Four years later	8,568,377	8,425,837	8,989,550	9,361,716	8,464,396	10,053,370	-	-	-	-
Five years later	7,184,035	8,567,057	9,033,362	9,218,997	7,928,223	-	-	-	-	-
Six years later	7,264,685	8,327,301	8,973,507	9,212,745	-	-	-	-	-	-
Seven years later	7,234,646	8,246,638	8,795,656	-	-	-	-	-	-	-
Eight years later	7,137,767	8,201,103	-	-	-	-	-	-	-	-
Nine years later	7,380,840	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	(885,901)	(202,571)	281,196	464,537	(2,606,660)	(1,636,404)	(2,718,029)	(2,671,997)	(4,864,039)	-

See independent auditors' report.

**KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION**  
 Claims Development Information (*Unaudited*)  
 Years ended June 30, 2003 through 2012

The following table illustrates how the Association's earned premium revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) 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 reinsurers, 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 reinsurers, 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 reinsurers 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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(1) Earned premium revenue and net investment income:										
Earned	\$ 4,579,217	\$ 4,767,188	\$ 5,301,624	\$ 5,722,978	\$ 6,719,752	\$ 6,811,806	\$ 6,365,897	\$ 6,920,352	\$ 6,136,090	\$ 5,534,204
Ceded	1,168,963	1,823,338	1,764,738	1,873,329	2,407,379	1,546,039	1,292,868	1,646,914	1,724,440	2,063,778
Net earned	3,410,254	2,943,850	3,536,886	3,849,649	4,312,373	5,265,767	5,073,029	5,273,438	4,411,650	3,470,426
(2) Unallocated expenses	1,278,079	1,576,757	1,362,933	1,648,508	1,988,126	2,324,599	2,561,715	2,856,658	2,456,618	2,136,191
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	2,031,350	930,403	2,400,425	2,155,018	1,768,183	2,260,910	2,116,384	3,942,432	2,386,715	1,318,409
Ceded	858,546	-	801,118	352,000	505,000	507,046	735,645	2,186,714	315,968	-
Net incurred	1,172,804	930,403	1,599,307	1,803,018	1,263,183	1,753,864	1,380,739	1,755,718	2,070,747	1,318,409
(4) Net paid (cumulative) as of:										
End of policy year	484,097	311,952	1,123,046	1,095,824	878,190	1,116,949	569,117	1,096,057	842,088	1,040,802
One year later	1,583,802	918,602	1,564,130	1,708,538	1,154,813	1,492,362	2,031,162	1,690,691	2,041,327	-
Two years later	1,593,104	918,602	1,609,723	1,713,367	1,304,994	1,607,098	2,066,094	1,938,334	-	-
Three years later	1,648,368	935,017	1,609,723	1,713,586	1,304,994	1,686,563	2,113,937	-	-	-
Four years later	1,648,368	935,017	1,609,723	1,713,586	1,305,082	1,686,125	-	-	-	-
Five years later	1,648,368	921,691	1,609,724	1,713,674	1,305,038	-	-	-	-	-
Six years later	1,620,532	921,691	1,611,815	1,712,970	-	-	-	-	-	-
Seven years later	1,620,532	921,691	1,611,815	-	-	-	-	-	-	-
Eight years later	1,620,532	921,991	-	-	-	-	-	-	-	-
Nine years later	1,620,532	-	-	-	-	-	-	-	-	-
(5) Reestimated ceded claims and expenses	-	13,576	1,249,869	537,724	326,308	478,414	735,645	-	13,218	-
(6) Reestimated net incurred claims and expenses:										
End of policy year	1,172,804	930,403	1,599,307	1,803,018	1,263,183	1,753,864	1,380,739	1,755,718	2,070,747	1,318,409
One year later	1,594,989	938,960	1,635,969	1,718,492	1,264,938	1,513,503	2,243,833	1,745,691	2,406,715	-
Two years later	1,628,318	918,602	1,609,723	1,716,736	1,312,943	1,607,098	2,091,094	1,948,334	-	-
Three years later	1,648,368	935,017	1,609,723	1,713,586	1,304,994	1,686,563	2,113,937	-	-	-
Four years later	1,648,368	935,017	1,609,723	1,713,586	1,305,082	1,686,125	-	-	-	-
Five years later	1,648,368	921,741	1,609,724	1,713,674	1,305,038	-	-	-	-	-
Six years later	1,620,532	921,691	1,611,815	1,712,970	-	-	-	-	-	-
Seven years later	1,620,532	921,691	-	-	-	-	-	-	-	-
Eight years later	1,620,532	921,991	-	-	-	-	-	-	-	-
Nine years later	1,620,532	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	447,728	(8,412)	12,508	(90,048)	41,855	(67,739)	733,198	192,616	335,968	-

See independent auditors' report.