

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

*Years Ended June 30, 2015 and 2014  
with Report of Independent Auditors*

## CONTENTS

	<u>Pages</u>
Report of Independent Auditors.....	1 - 3
Management's Discussion and Analysis ( <i>Unaudited</i> ).....	4 - 5
Financial Statements:	
Statements of Net Position.....	6
Statements of Revenues, Expenses and Changes in Net Position.....	7
Statements of Cash Flows.....	8 - 9
Notes to the Financial Statements.....	10 - 20
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 <i>Government</i> <i>Auditing Standards</i> .....	21 - 22
Schedule of Prior Year Findings and Responses .....	23
Supplementary Information:	
Statements of Net Position Information.....	24
Statements of Revenues, Expenses and Changes in Net Position Information.....	25
Claims Development Information ( <i>Unaudited</i> ).....	26 - 27

## 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, 2015 and 2014, and 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.

### 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, 2015 and 2014, 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. 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 financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 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 and accordingly we do not express an opinion on the supplementary information referred to above nor do we provide any assurance on it.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015 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 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* in considering KLCIS' internal control over financial reporting and compliance.

*Dean Dotson Allen Ford, PLLC*

October 19, 2015  
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, 2015. 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 \$2,899,549 for the current fiscal year, compared to the increase of \$5,060,877 during the prior fiscal year.

**Table 1**  
**Net Position**

	<u>2015</u>	<u>2014</u>
Cash and investments	\$ 54,802,002	\$ 50,915,134
Capital and other assets	<u>2,312,827</u>	<u>2,769,915</u>
Total assets	57,114,829	53,685,049
Unpaid losses and loss adjustment expenses	28,601,446	28,603,742
Other liabilities	<u>4,594,687</u>	<u>4,062,160</u>
Total liabilities	<u>33,196,133</u>	<u>32,665,902</u>
Total net position	\$ <u>23,918,696</u>	\$ <u>21,019,147</u>

#### 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 \$1,474,735 or 6.08% from the prior fiscal year. Due primarily to changes in current year unrealized gains and losses, investment related revenues decreased \$2,542,645 or 74.25%. General administrative expenses increased mainly due to the legal expenses related to the KSBIT litigation and the reimbursement of administrative costs.



Kentucky League of Cities Insurance Services Association  
Management's Discussion and Analysis (*Unaudited*), continued

Table 2  
Change in Net Position

Year ended June 30,	<u>2015</u>	<u>2014</u>
Net premiums earned	\$ 25,746,746	\$ 24,272,011
Investment and other revenue and gains	<u>881,754</u>	<u>3,424,399</u>
Total revenue	26,628,500	27,696,410
Losses and loss adjustment expenses	13,020,817	12,917,624
General administrative expenses	<u>10,708,134</u>	<u>9,717,909</u>
Total expenses	<u>23,728,951</u>	<u>22,635,533</u>
Change in net position	\$ <u>2,899,549</u>	\$ <u>5,060,877</u>

Description of Current and Expected Conditions

In the last few years, KLC has taken measures to fine tune the efforts of loss control, underwriting and claims. KLCIS has allocated additional resources to each of these areas in the form of closer management oversight of third party administrators, in house loss control staff and additional emphasis on membership accountability of results via underwriting activities. KLC has conducted training programs specifically designed for newly elected officials, which has helped reduce employment related claims. We have increased loss control visits particularly in the law enforcement area where claim frequency and severity can dramatically impact results. Additional resources have been allocated to fine tune the score card program and to equip members with the resources necessary to effectively conduct monthly safety meetings. We believe the synergistic effect of these three departments are contributing to the 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 2015'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 Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Investment securities, at fair value	\$ 50,050,972	\$ 42,467,814
Cash and cash equivalents	4,751,030	8,447,320
Accounts receivable, net of allowance for doubtful accounts of \$29,654 and \$28,292 for 2015 and 2014, respectively	77,862	171,629
Excess insurance recoverable	983,655	919,437
Accrued investment income	180,956	148,218
Prepaid expenses	188,216	675,756
Membership in NLC Mutual Insurance Company	620,037	620,037
Property and equipment, net of accumulated depreciation of \$139,673 and \$990,520 for 2015 and 2014, respectively	<u>262,101</u>	<u>234,838</u>
Total assets	<u>57,114,829</u>	<u>53,685,049</u>
<b>Liabilities</b>		
Unpaid losses and loss adjustment expenses:		
Reported claims	17,083,388	17,384,232
Incurred but not reported claims	10,447,452	10,203,180
Unallocated loss adjustment expenses	<u>1,070,606</u>	<u>1,016,330</u>
Total unpaid losses and loss adjustment expenses	28,601,446	28,603,742
Accounts payable	291,198	616,008
Payable to related entities, net	183,319	80,539
Advance premiums	<u>4,120,170</u>	<u>3,365,613</u>
Total liabilities	<u>33,196,133</u>	<u>32,665,902</u>
<b>Net Position</b>		
Net position	\$ <u>23,918,696</u>	\$ <u>21,019,147</u>

See accompanying notes.



# KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

## Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenue:		
Net premiums earned	\$ 25,746,746	\$ 24,272,011
Operating expenses:		
Losses and loss adjustment expenses	13,020,817	12,917,624
Commission expense	3,405,649	3,479,686
Claims administration expense	1,218,607	1,157,975
Loss prevention expenses	167,842	208,916
Professional fees	623,490	409,433
Administrative fees, related entity	4,591,085	3,979,928
Other expenses	<u>649,339</u>	<u>452,271</u>
Total operating expenses	<u>23,676,829</u>	<u>22,605,833</u>
Operating income	2,069,917	1,666,178
Nonoperating revenue:		
Interest and investment revenue	818,030	3,392,632
Other income	<u>63,724</u>	<u>31,767</u>
Total nonoperating revenue	881,754	3,424,399
Nonoperating expense:		
Loss on disposal of assets	<u>52,122</u>	<u>29,700</u>
Nonoperating income	<u>829,632</u>	<u>3,394,699</u>
Change in net position	2,899,549	5,060,877
Net position, beginning of year	<u>21,019,147</u>	<u>15,958,270</u>
Net position, end of year	\$ <u>23,918,696</u>	\$ <u>21,019,147</u>

See accompanying notes.

# KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

## Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Premiums collected	\$ 26,593,708	\$ 25,134,094
Losses and loss adjustment expenses paid	(13,023,113)	(10,503,152)
Underwriting expenses paid	(9,344,621)	(7,944,993)
Other payments	<u>(1,032,788)</u>	<u>(888,116)</u>
Net cash provided by operating activities	3,193,186	5,797,833
<b>Cash flows from investing activities:</b>		
Purchases of investments	(29,031,845)	(30,142,227)
Proceeds from maturity of investments	7,302,850	4,630,150
Proceeds from sale of investments	13,459,981	19,693,184
Interest and dividends received	<u>1,471,148</u>	<u>2,401,670</u>
Net cash used in investing activities	(6,797,866)	(3,417,223)
<b>Cash flows from capital and related financing activities:</b>		
Purchase of property and equipment	(155,334)	(55,875)
Other income	<u>63,724</u>	<u>31,768</u>
Net cash used in financing activities	<u>(91,610)</u>	<u>(24,107)</u>
Net (decrease) increase in cash and cash equivalents	(3,696,290)	2,356,503
Cash and cash equivalents, beginning of year	<u>8,447,320</u>	<u>6,090,817</u>
Cash and cash equivalents, end of year	<u>\$ 4,751,030</u>	<u>\$ 8,447,320</u>

# KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

## Statements of Cash Flows, continued

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 2,069,917	\$ 1,666,178
Adjustments:		
Depreciation	75,949	65,820
Provision for doubtful accounts	1,362	12,292
Increase (decrease) in cash due to changes in:		
Accounts receivable	92,405	(54,218)
Excess insurance recoverable	(64,218)	827,157
Prepaid expenses	487,540	(426,255)
Unpaid losses and loss adjustment expenses	(2,296)	2,414,472
Accounts payable	(324,810)	321,731
Payable to related entities, net	102,780	54,355
Advance premiums	<u>754,557</u>	<u>916,301</u>
Net cash provided by operating activities	\$ <u>3,193,186</u>	\$ <u>5,797,833</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 (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 397 and 347 members, respectively, as of June 30, 2015, and 394 and 350 members, respectively, as of June 30, 2014.

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.



# 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 excess insurance 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, 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.

## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

### Notes to the Financial Statements, continued

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

##### 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.

##### 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.

## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

### Notes to the Financial Statements, continued

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

##### 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.

##### 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 2015 and 2014. Discounting reduced the liability by \$1,458,531 and \$1,459,382 as of June 30, 2015 and 2014, respectively. The effect of discounting on the provision for losses and loss adjustment expenses was an increase of \$851 in 2015 and a decrease of \$19,109 in 2014.



## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

### Notes to the Financial Statements, continued

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

##### 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, 2015 and 2014 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 2015 or 2014.

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, 2015, 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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	\$ 3,192,663	\$ 1,691,415
Money market mutual funds	<u>1,558,367</u>	<u>6,755,905</u>
	4,751,030	8,447,320
Investments classified as investment securities:		
Certificates of deposit	4,488,252	2,989,092
Corporate bonds	9,804,174	9,818,912
Municipal bonds	4,971,416	5,443,755
U.S. government agency obligations	14,254,819	9,059,768
Equity mutual funds	8,323,154	7,270,572
Equity securities	<u>8,209,157</u>	<u>7,885,715</u>
	<u>50,050,972</u>	<u>42,467,814</u>
Total deposits and investments	\$ <u>54,802,002</u>	\$ <u>50,915,134</u>

As of June 30, 2015 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	\$ -	\$ 4,488,252	\$ -	\$ -
Corporate bonds	851,299	8,952,875	-	-
Municipal bonds	1,214,747	3,028,179	728,490	-
U.S. government agency obligations	<u>1,311,625</u>	<u>9,540,574</u>	<u>-</u>	<u>3,402,620</u>
Total maturities	\$ <u>3,377,671</u>	\$ <u>26,009,880</u>	\$ <u>728,490</u>	\$ <u>3,402,620</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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 872,473	\$ 825,023
Realized gains on sales of securities	631,413	1,571,382
Unrealized (losses) gains on securities	<u>(685,856)</u>	<u>996,227</u>
	<u>\$ 818,030</u>	<u>\$ 3,392,632</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 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.

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, 2015, 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 BAA2 to AA2. Additional investments included municipal bonds, all of which had AA3 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 Home Loan Bank. These investments represented 10.01% 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. Excess Insurance

For 2015 and 2014, 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 \$500,000 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" (Excellent) 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.

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 \$3,051,881 and \$2,986,875 for the years ended June 30, 2015 and 2014, respectively. Additional recoveries accrued on paid claims during 2015 and 2014 were \$305,559 and \$1,200,430, respectively. 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 \$1,828,188 and \$1,261,786 in 2015 and 2014, respectively.



# KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

## Notes to the Financial Statements, continued

### 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 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 \$4,591,085 and \$3,979,928 for the years ended June 30, 2015 and 2014, 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 \$965,050 and \$890,889 for the years ended June 30, 2015 and 2014, 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>2015</u>	<u>2014</u>
KLC accounts receivable (payable)	\$ 322,027	\$ (523,718)
KLCWCT accounts receivable	490,065	361,550
KLCPFC accounts payable	(286,868)	-
KLCIA accounts (payable) receivable	<u>(708,543)</u>	<u>81,629</u>
Net payable to related entities	\$ <u>(183,319)</u>	\$ <u>(80,539)</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, 2015 and 2014 is summarized as follows:

	<u>Liability Pool</u>		<u>Property Pool</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net unpaid losses and loss adjustment expenses, beginning of year	\$ 27,440,956	\$ 25,129,131	\$ 1,162,786	\$ 1,060,139
Incurring losses and loss adjustment expenses:				
Provision for insured events of the current year	11,756,055	10,029,264	3,061,708	2,286,732
(Decrease) increase in provision for insured events of prior years	<u>(1,724,526)</u>	<u>1,325,531</u>	<u>(72,420)</u>	<u>(723,903)</u>
Total incurred losses and loss adjustment expenses	10,031,529	11,354,795	2,989,288	1,562,829
Payments:				
Losses and loss adjustment expenses attributable to insured events of the current year	2,488,280	2,229,692	1,933,426	1,304,738
Losses and loss adjustment expenses attributable to insured events of prior years	<u>7,782,480</u>	<u>6,813,278</u>	<u>818,927</u>	<u>155,444</u>
Total payments	<u>10,270,760</u>	<u>9,042,970</u>	<u>2,752,353</u>	<u>1,460,182</u>
Net unpaid losses and loss adjustment expenses, end of year	\$ <u>27,201,725</u>	\$ <u>27,440,956</u>	\$ <u>1,399,721</u>	\$ <u>1,162,786</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.

## KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

### Notes to the Financial Statements, continued

#### 7. Litigation

On August 26, 2014, the Department filed a suit against KLC, KLCIS, and the Kentucky School Boards Association for an unspecified amount of damages related to the administration of KSBIT. Specifically, the complaint contains allegations of negligence and misrepresentation in connection with the management of KSBITWCF and KSBITPLF. The allegations against KLC and KLCIS are limited to the time period beginning January 2010 through July 2013. KLC and KLCIS strongly deny the allegations. Discovery is ongoing and defense counsel contends that both entities have a strong defense and the potential for an adverse outcome is low. KLC and KLCIS are covered by an Errors and Omissions and Directors' and Officers' Liability Policy issued by Lloyds of London through Broker's Risk Services with a \$10 million limit. The claim has been reported to the carrier and a defense is being provided for both entities under the policy. An occurrence policy covering KLC and KLCIS issued by KLCIS for Public Officials Liability may have also been triggered in this litigation with a \$4 million limit. The claim has been reported to the carrier and a coverage opinion has been requested to determine if coverage exists.

**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, 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, 2015, 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, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KLCIS's 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's internal control. Accordingly, we do not express an opinion on the effectiveness of KLCIS's 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 over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

### 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 Dotson Allen Ford, PLLC*

October 19, 2015  
Lexington, Kentucky



# KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

## Schedule of Prior Year Findings

Year ended June 30, 2015

### Section I - Status of Prior Year Findings

#### Finding 2014-001:

##### *Criteria, Condition, and Effect:*

During the audit, we noted that administrative fees paid to a related entity have not been "trued up" from budgeted costs to actual costs incurred, in accordance with the administration agreement in place. This practice may lead to liabilities or assets of KLCIS not being recorded, which over time can cause misstatements to the financial statements.

##### *Recommendation:*

We recommend that the "true up" reconciliation between actual and budgeted administrative fees be performed. Additionally, we recommend that management perform a review of significant contracts and agreements for accounting implications and maintain a document that summarizes the accounting implications and the plan to ensure the proper accounting treatment.

##### *Current Year Status*

This finding was resolved in the current year.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Net Position Information

June 30, 2015 and 2014

Assets	2015			2014		
	<u>Liability Pool</u>	<u>Property Pool</u>	<u>Total</u>	<u>Liability Pool</u>	<u>Property Pool</u>	<u>Total</u>
Investment securities, at fair value	\$ 50,050,972	\$ -	\$ 50,050,972	\$ 42,467,814	\$ -	\$ 42,467,814
Cash and cash equivalents	3,526,639	1,224,391	4,751,030	8,447,320	-	8,447,320
Accounts receivable, net	93,664	(15,802)	77,862	86,698	84,931	171,629
Excess insurance recoverable	32,521	951,134	983,655	15,521	903,916	919,437
Accrued investment income	180,956	-	180,956	148,218	-	148,218
Prepaid expenses	126,841	61,375	188,216	329,454	346,302	675,756
Membership in NLC Mutual Insurance Company	620,037	-	620,037	620,037	-	620,037
Property and equipment, net	<u>210,000</u>	<u>52,101</u>	<u>262,101</u>	<u>194,473</u>	<u>40,365</u>	<u>234,838</u>
Total assets	<u>54,841,630</u>	<u>2,273,199</u>	<u>57,114,829</u>	<u>52,309,535</u>	<u>1,375,514</u>	<u>53,685,049</u>
Liabilities						
Unpaid losses and loss adjustment expenses:						
Reported claims	16,361,858	721,530	17,083,388	16,826,735	557,497	17,384,232
Incurred but not reported claims	9,817,403	630,049	10,447,452	9,645,808	557,372	10,203,180
Unallocated loss adjustment expenses	<u>1,022,464</u>	<u>48,142</u>	<u>1,070,606</u>	<u>968,413</u>	<u>47,917</u>	<u>1,016,330</u>
Total unpaid loss and loss adjustment expenses	27,201,725	1,399,721	28,601,446	27,440,956	1,162,786	28,603,742
Accounts payable	167,104	124,094	291,198	379,429	236,579	616,008
Payable to related entities, net	4,977,271	(4,793,952)	183,319	5,449,674	(5,369,135)	80,539
Advance premiums	<u>2,677,538</u>	<u>1,442,632</u>	<u>4,120,170</u>	<u>2,317,021</u>	<u>1,048,592</u>	<u>3,365,613</u>
Total liabilities	<u>35,023,638</u>	<u>(1,827,505)</u>	<u>33,196,133</u>	<u>35,587,080</u>	<u>(2,921,178)</u>	<u>32,665,902</u>
Net Position						
Net position	<u>\$ 19,817,992</u>	<u>\$ 4,100,704</u>	<u>\$ 23,918,696</u>	<u>\$ 16,722,455</u>	<u>\$ 4,296,692</u>	<u>\$ 21,019,147</u>

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, 2015 and 2014

	2015			2014		
	<u>Liability Pool</u>	<u>Property Pool</u>	<u>Total</u>	<u>Liability Pool</u>	<u>Property Pool</u>	<u>Total</u>
Operating revenue:						
Net premiums earned	\$ 20,111,831	\$ 5,634,915	\$ 25,746,746	\$ 19,197,984	\$ 5,074,027	\$ 24,272,011
Operating expenses:						
Losses and loss adjustment expenses	10,031,529	2,989,288	13,020,817	11,354,795	1,562,829	12,917,624
Commission expense	2,086,147	1,319,502	3,405,649	2,163,946	1,315,740	3,479,686
Claims administration expense	1,087,609	130,998	1,218,607	908,322	249,653	1,157,975
Loss prevention expenses	167,842	-	167,842	208,916	-	208,916
Professional fees	409,954	213,536	623,490	237,794	171,639	409,433
Administrative fees, related entity	3,329,078	1,262,007	4,591,085	2,946,442	1,033,486	3,979,928
Other expenses	<u>444,989</u>	<u>204,350</u>	<u>649,339</u>	<u>370,901</u>	<u>81,370</u>	<u>452,271</u>
Total operating expenses	<u>17,557,148</u>	<u>6,119,681</u>	<u>23,676,829</u>	<u>18,191,116</u>	<u>4,414,717</u>	<u>22,605,833</u>
Operating income (loss)	2,554,683	(484,766)	2,069,917	1,006,868	659,310	1,666,178
Nonoperating revenue:						
Interest and investment revenue	538,436	279,594	818,030	2,443,004	949,628	3,392,632
Other income	<u>54,540</u>	<u>9,184</u>	<u>63,724</u>	<u>30,212</u>	<u>1,555</u>	<u>31,767</u>
Total nonoperating revenue	592,976	288,778	881,754	2,473,216	951,183	3,424,399
Nonoperating expense:						
Loss on disposal of assets	<u>52,122</u>	<u>-</u>	<u>52,122</u>	<u>29,700</u>	<u>-</u>	<u>29,700</u>
Nonoperating income	<u>540,854</u>	<u>288,778</u>	<u>829,632</u>	<u>2,443,516</u>	<u>951,183</u>	<u>3,394,699</u>
Change in net position	3,095,537	(195,988)	2,899,549	3,450,384	1,610,493	5,060,877
Net position, beginning of year	<u>16,722,455</u>	<u>4,296,692</u>	<u>21,019,147</u>	<u>13,272,071</u>	<u>2,686,199</u>	<u>15,958,270</u>
Net position, end of year	<u>\$ 19,817,992</u>	<u>\$ 4,100,704</u>	<u>\$ 23,918,696</u>	<u>\$ 16,722,455</u>	<u>\$ 4,296,692</u>	<u>\$ 21,019,147</u>

See report of independent auditors.



KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Claims Development Information (*Unaudited*)

Years ended June 30, 2006 through 2015

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									
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
(1)	Earned premium revenue and net investment income:										
	Earned	\$ 20,200,768	\$ 22,961,726	\$ 21,786,096	\$ 18,807,426	\$ 20,240,270	\$ 19,402,472	\$ 17,728,986	\$ 19,521,227	\$ 22,502,661	\$ 21,464,531
	Ceded	<u>3,736,606</u>	<u>4,376,166</u>	<u>4,565,945</u>	<u>4,122,608</u>	<u>4,067,453</u>	<u>2,348,135</u>	<u>1,485,434</u>	<u>1,509,347</u>	<u>861,673</u>	<u>814,264</u>
	Net earned	16,464,162	18,585,560	17,220,151	14,684,818	16,172,817	17,054,337	16,243,552	18,011,880	21,640,988	20,650,267
(2)	Unallocated expenses	4,988,671	5,866,615	6,426,405	6,251,928	6,217,737	5,706,601	5,884,973	6,310,423	6,836,321	7,525,619
(3)	Estimated incurred claims and expenses, end of policy year:										
	Incurred	8,822,684	10,534,883	11,689,774	11,768,385	10,948,096	13,486,832	4,527,857	3,935,737	4,809,511	5,578,505
	Ceded	<u>74,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Net incurred	8,748,208	10,534,883	11,689,774	11,768,385	10,948,096	13,486,832	4,527,857	3,935,737	4,809,511	5,578,505
(4)	Net paid (cumulative) as of:										
	End of policy year	1,872,350	2,048,829	2,413,020	2,193,272	2,073,659	2,327,494	2,267,470	2,100,226	2,229,692	2,488,280
	One year later	4,269,039	3,953,727	4,589,949	4,449,503	3,934,091	4,078,942	3,323,205	3,932,110	3,847,541	
	Two years later	6,264,229	5,408,436	6,925,392	6,777,006	5,184,363	5,668,523	4,703,604	5,407,484		
	Three years later	7,361,262	6,929,353	8,482,193	7,944,206	6,318,178	7,793,652	6,688,323			
	Four years later	8,651,218	7,595,630	9,471,504	8,312,890	7,223,279	9,062,820				
	Five years later	8,763,106	7,704,053	9,646,816	8,807,471	7,543,732					
	Six years later	9,007,734	7,829,248	9,864,169	8,711,132						
	Seven years later	9,119,744	7,873,379	10,696,218							
	Eight years later	9,164,851	7,908,776								
	Nine years later	9,164,852									
(5)	Reestimated ceded claims and expenses	579,834	-	-	-	-	-	-	-	-	-
(6)	Reestimated net incurred claims and expenses:										
	End of policy year	8,748,208	10,534,883	11,689,774	11,768,385	10,948,096	13,486,832	4,527,857	3,935,737	4,809,511	5,578,505
	One year later	9,192,945	9,306,548	11,940,064	11,603,795	10,904,727	8,622,793	6,600,636	7,651,584	8,839,731	
	Two years later	9,704,319	9,453,663	12,129,275	10,604,964	8,276,099	9,941,020	7,984,353	8,187,619		
	Three years later	9,417,554	8,999,121	11,189,006	9,050,356	8,447,681	10,886,113	7,716,744			
	Four years later	9,361,716	8,464,396	10,053,370	9,200,913	8,430,904	10,814,256				
	Five years later	9,218,997	7,928,223	10,128,669	9,541,489	8,416,174					
	Six years later	9,212,745	8,156,878	10,516,855	9,161,009						
	Seven years later	9,282,259	8,195,600	10,982,527							
	Eight years later	9,164,851	8,106,431								
	Nine years later	9,244,852									
(7)	Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	496,644	(2,428,452)	(707,247)	(2,607,376)	(2,531,922)	(2,672,576)	3,188,887	4,251,882	4,030,220	-

See report of independent auditors.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Claims Development Information (*Unaudited*)

Years ended June 30, 2006 through 2015

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									
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
(1)	Earned premium revenue and net investment income:										
	Earned	\$ 5,722,978	\$ 6,719,752	\$ 6,811,806	\$ 6,365,897	\$ 6,902,352	\$ 6,136,090	\$ 5,534,204	\$ 6,133,375	\$ 8,148,857	\$ 8,152,127
	Ceded	<u>1,873,329</u>	<u>2,407,379</u>	<u>1,546,039</u>	<u>1,292,868</u>	<u>1,646,914</u>	<u>1,724,440</u>	<u>2,063,778</u>	<u>2,286,341</u>	<u>2,125,202</u>	<u>2,237,618</u>
	Net earned	3,849,649	4,312,373	5,265,767	5,073,029	5,255,438	4,411,650	3,470,426	3,847,034	6,023,655	5,914,509
(2)	Unallocated expenses	1,648,508	1,988,126	2,324,599	2,561,715	2,856,688	2,456,818	2,136,191	2,282,273	2,851,889	3,130,393
(3)	Estimated incurred claims and expenses, end of policy year:										
	Incurred	1,615,183	2,258,864	1,887,785	2,491,363	4,257,461	1,634,377	1,318,409	800,317	1,729,516	2,466,390
	Ceded	<u>352,000</u>	<u>505,000</u>	<u>507,046</u>	<u>735,645</u>	<u>2,186,714</u>	<u>315,968</u>	-	-	-	-
	Net incurred	1,263,183	1,753,864	1,380,739	1,755,718	2,070,747	1,318,409	1,318,409	800,317	1,729,516	2,466,390
(4)	Net paid (cumulative) as of:										
	End of policy year	1,095,824	878,190	1,116,949	569,117	1,096,057	842,088	1,040,802	600,248	1,304,738	1,933,426
	One year later	1,708,538	1,154,813	1,492,362	2,031,162	1,690,691	2,041,327	1,659,994	965,289	2,186,741	
	Two years later	1,713,367	1,304,994	1,607,098	2,066,094	1,938,334	2,207,441	2,056,055	968,967		
	Three years later	1,713,586	1,304,994	1,686,563	2,113,937	1,993,774	2,211,774	1,793,232			
	Four years later	1,713,586	1,305,082	1,686,125	2,113,809	1,993,654	2,211,774				
	Five years later	1,713,674	1,305,038	1,686,125	2,113,809	1,992,925					
	Six years later	1,712,970	1,305,078	1,686,125	2,113,809						
	Seven years later	1,712,216	1,305,253	1,686,125							
	Eight years later	1,711,839	1,305,196								
	Nine years later	1,711,787									
(5)	Reestimated ceded claims and expenses	537,724	326,308	478,414	735,645	-	13,218	-	-	-	-
(6)	Reestimated net incurred claims and expenses:										
	End of policy year	1,263,183	1,753,864	1,380,739	1,755,718	2,070,747	1,318,409	1,318,409	800,317	1,729,516	2,466,390
	One year later	1,718,492	1,264,938	1,513,503	2,243,833	1,745,691	2,406,715	2,030,141	1,006,189	2,264,439	
	Two years later	1,716,736	1,312,943	1,607,098	2,091,094	1,948,334	2,210,441	2,056,055	968,967		
	Three years later	1,713,586	1,304,994	1,686,563	2,113,937	1,993,774	2,211,774	1,793,586			
	Four years later	1,713,586	1,305,082	1,686,125	2,113,809	1,993,654	2,211,774				
	Five years later	1,713,674	1,305,038	1,686,125	2,113,809	1,992,925					
	Six years later	1,712,970	1,305,078	1,686,125	2,113,809						
	Seven years later	1,712,216	1,305,253	1,686,125							
	Eight years later	1,711,839	1,305,196								
	Nine years later	1,711,787									
(7)	Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	448,604	(448,668)	305,386	358,091	(77,822)	893,365	475,177	168,650	534,923	-

See report of independent auditors.