# KENTUCKY LEAGUE OF CITIES
# WORKERS' COMPENSATION TRUST

**Financial Statements**

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

CONTENTS

Pages

Report of Independent Auditors ..... 1 - 3

Management's Discussion and Analysis (*Unaudited*) ..... 4 - 6

Financial Statements:
- Statements of Net Position ..... 7
- Statements of Revenues, Expenses and Changes in Net Position ..... 8
- Statements of Cash Flows ..... 9 - 10

Notes to the Financial Statements ..... 11 - 22

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* ..... 23 - 24

Schedule of Prior Year Findings and Responses ..... 25

Supplementary Information:
- Claims Development Information (*Unaudited*) ..... 26

DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

# Report of Independent Auditors

Board of Trustees
Kentucky League of Cities Workers' Compensation Trust
Lexington, Kentucky

## Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky League of Cities Workers' Compensation Trust (the Trust) 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 Workers' Compensation Trust 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 (GAAP).

106 W. Vine Street, Suite 600 • Lexington, KY 40507 • 859-255-2341 phone • 859-255-0125 fax
500 W. Jefferson Street, Suite 1400 • Louisville, KY 40202 • 502-589-6050 phone • 502-581-9016 fax
deandorton.com

**Emphasis of a Matter**

*Uncertainties Regarding the Future Outcome of Litigation*

As discussed in Note 8 to the financial statements, via an October 27, 2015 order, the Trust did not prevail in its Declaratory Action against the Department of Insurance. The order provided that the $8,000,000 in surplus notes receivable and $830,400 in surplus notes interest receivable were not to be repaid to the Trust. Also, the order requires that the Trust repay to the Kentucky School Boards Insurance Trust (KSBIT) $1,226,210 of interest paid to the Trust by KSBIT. As discussed in Note 8, the Trust intends to appeal the order and, based on the opinion of its attorney, believes it is possible to prevail on the surplus notes receivable issue and believes it is likely to prevail on the interest issue. As such, in accordance with GAAP-required contingency accounting, the Trust has recorded an allowance for impairing the surplus note receivable asset but not the surplus notes interest receivable asset. Also, in accordance with GAAP-required contingency accounting, it has not recorded a liability for the $1,226,210 of interest paid to the Trust by KSBIT. If the Trust does not prevail on either of these matters, the Trust's net position would be adversely affected. Management's plans in regard to these matters are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion is not modified with respect to this matter.

**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 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*

The supplementary information on page 26 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 audit 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.

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

In accordance with *Government Auditing Standards,* we have also issued our report dated November 4, 2015 on our consideration of the Trust's 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 the Trust's internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

November 4, 2015
Lexington, Kentucky

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

## Management's Discussion and Analysis (*Unaudited*)

Our discussion and analysis of the Kentucky League of Cities Workers' Compensation Trust (the Trust) provides an overview of the Trust's financial activity for the fiscal year ended June 30, 2015. It should be read in conjunction with the financial statements, which begin on page 7.

### 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 the assets and liabilities of the Trust and is presented on the accrual basis. Total net position decreased $16,586,736 for the current fiscal year as compared to a $2,420,486 decrease during the prior fiscal year.

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

| | 2015 | 2014 |
|---|---|---|
| Cash and investments | $ 46,833,864 | $ 49,960,873 |
| Capital and other assets | 3,408,421 | 11,084,702 |
| Total assets | 50,242,285 | 61,045,575 |
| Unpaid losses and loss adjustment expenses | 42,753,734 | 36,515,469 |
| Other liabilities | 2,543,339 | 2,998,158 |
| Total liabilities | 45,297,073 | 39,513,627 |
| Total net position | $ 4,945,212 | $ 21,531,948 |

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the revenues and expenses of the Trust and is also presented on the accrual basis. Net earned premium revenue has increased by $829,110 or 7.9% from the prior fiscal year. Due primarily to changes in current year unrealized gains and losses, investment related revenues decreased $2,972,841. Losses and loss adjustment expenses increased due to the accelerating of recording claims costs, as discussed in the following paragraph. General and administrative expenses decreased mainly due to the reduction in claims administration expenses. Legal expenses continue to increase in relation to the KSBIT litigation.

**Table 2**
**Change in Net Position**

| Year ended June 30, | 2015 | 2014 |
|---|---|---|
| Net premiums earned | $ 11,304,926 | $ 10,475,816 |
| Investment and other revenue and gains | 1,256,837 | 4,229,678 |
| Total revenue | 12,561,763 | 14,705,494 |
| Losses and loss adjustment expenses | 17,415,030 | 12,629,877 |
| General administrative expenses | 3,733,469 | 4,496,103 |
| Loss from adverse judgment (Note 8) | 8,000,000 | - |
| Total expenses and losses | 29,148,499 | 17,125,980 |
| Change in net position | $ (16,586,736) | $ (2,420,486) |

Description of Current and Expected Conditions

As of December 15, 2013, the Trust started using internal staff to adjust workers' compensation claims. The Trust still utilizes the services of a third party administrator to adjust post award claims. There has been a significant reduction in the number of newly reported litigated claims since bringing claims handling in-house. Overall claim frequency increased this past year. Loss Control visits continue to focus on members with higher frequency of losses and include quarterly follow-up visits to assist members in reducing claims. All prior year claims are now reserved at a projected level sufficient to cover all expected future benefit obligations. This change from projecting ten years of future medical costs to lifetime estimates has been implemented over the past few years. All claims have now been reviewed and revised based upon current information. Additional reserve strengthening has occurred since claims handling was brought in-house. Claim closure rates have increased this year. Rising drug costs have primarily contributed to the increase in prior year reserves. Some prescription costs have increased in excess of 100% during the last 12 months. Even though a high percentage of generic drugs are utilized by the program, the recent spike in generic drug costs has outpaced expected medical inflation. The Trust's efforts continue to focus on reducing reported claims, efficiently closing claims and managing medical costs. Since year end, a third party telephonic nurse case manager has been engaged to compliment the current use of field case managers and to further assist in controlling escalating medical costs. Management is also exploring the use of a managed care organization to become effective July 1, 2016.

The Franklin Circuit Court recently ruled on the repayment of the surplus notes, see footnote 8. The KLCIS board is appealing the court's adverse decision on the surplus notes to the Kentucky Court of Appeals in a case of first impression. While management is confident in its chances of overturning the Circuit Court's ruling on appeal, management has chosen to take the most conservative position and removed 100% of the judgment of the $8,000,000 from surplus.

Please see footnote 10, Management's Plans (Unaudited) as management anticipates that all of these changes will strengthen and improve the long term results of the Trust's program. However, it may take several years to effectively evaluate the financial impact of bringing claims handling in-house and changing the Trust's reserving philosophy.

Contacting the Organization's Financial Management

This financial report is designed to provide a general overview of 2015 operations and to show the Trust's 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 WORKERS' COMPENSATION TRUST

Statements of Net Position

June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Investment securities, at fair value | $ 40,074,236 | $ 42,241,848 |
| Cash and cash equivalents | 6,759,628 | 7,719,025 |
| Accounts receivable, net of allowance for doubtful accounts of $1,826 and $674 in 2015 and 2014, respectively | 39,797 | 22,888 |
| Excess insurance recoverable | 1,859,671 | 1,734,700 |
| Accrued investment income | 280,416 | 287,999 |
| Prepaid expenses | 37,589 | 172,933 |
| Membership in NLC Mutual Insurance Company | 241,255 | 241,255 |
| Equipment, net of accumulated depreciation of $75,879 and $1,229,559 for 2015 and 2014, respectively | 119,293 | 109,727 |
| Surplus note receivable (Note 8) | 8,000,000 | 8,000,000 |
| Surplus note receivable impairment allowance (Note 8) | (8,000,000) | - |
| Surplus note interest receivable (Note 8) | 830,400 | 515,200 |
| Total assets | 50,242,285 | 61,045,575 |
| **Liabilities** | | |
| Unpaid losses and loss adjustment expenses: | | |
| Reported claims | 36,757,860 | 28,847,857 |
| Incurred but not reported claims | 4,832,375 | 6,547,692 |
| Unallocated loss adjustment expenses | 1,163,499 | 1,119,920 |
| Total unpaid losses and loss adjustment expenses | 42,753,734 | 36,515,469 |
| Accounts payable | 343,126 | 492,668 |
| Payable to related entities, net | 424,771 | 1,143,430 |
| Advance premiums | 1,775,442 | 1,362,060 |
| Total liabilities | 45,297,073 | 39,513,627 |
| **Net Position** | | |
| Net position | $ 4,945,212 | $ 21,531,948 |

*See accompanying notes.*

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Operating revenue: | | |
| Net premiums earned | $ 11,304,926 | $ 10,475,816 |
| Operating expenses: | | |
| Losses and loss adjustment expenses | 17,415,030 | 12,629,877 |
| Commission expense | 1,050,454 | 1,177,589 |
| Claims administration expense | 228,790 | 574,237 |
| Loss prevention expenses | 112,883 | 190,025 |
| Professional fees | 409,216 | 534,134 |
| Administrative fees, related entity | 1,721,364 | 1,828,820 |
| Other expenses | 210,762 | 191,298 |
| Total operating expenses | 21,148,499 | 17,125,980 |
| Operating loss | (9,843,573) | (6,650,164) |
| Nonoperating (loss) revenue: | | |
| Interest and investment revenue | 1,256,837 | 4,229,678 |
| Loss from adverse judgment (Note 8) | (8,000,000) | - |
| Total nonoperating (loss) revenue | (6,743,163) | 4,229,678 |
| Change in net position | (16,586,736) | (2,420,486) |
| Net position, beginning of year | 21,531,948 | 23,952,434 |
| Net position, end of year | $ 4,945,212 | $ 21,531,948 |

*See accompanying notes.*

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

Statements of Cash Flows

Years ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Premiums collected | $ 11,700,247 | $ 11,195,760 |
| Losses and loss adjustment expenses paid | (11,176,765) | (8,923,865) |
| Underwriting and administrative expenses paid | (3,957,121) | (3,350,108) |
| Other payments | (598,232) | (607,700) |
| Net cash used in operating activities | (4,031,871) | (1,685,913) |
| **Cash flows from investing activities:** | | |
| Purchases of investments | (10,320,575) | (14,402,472) |
| Proceeds from maturity of investments | 870,570 | - |
| Proceeds from sale of investments | 10,073,195 | 18,199,620 |
| Interest and dividends received | 2,493,642 | 2,555,583 |
| Net cash provided by investing activities | 3,116,832 | 6,352,731 |
| **Cash flows from capital and related financing activities:** | | |
| Capital expenditures | (44,358) | (41,587) |
| Net cash used in financing activities | (44,358) | (41,587) |
| Net (decrease) increase in cash and cash equivalents | (959,397) | 4,625,231 |
| Cash and cash equivalents, beginning of year | 7,719,025 | 3,093,794 |
| Cash and cash equivalents, end of year | $ 6,759,628 | $ 7,719,025 |

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

Statements of Cash Flows, continued

Years ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $ (9,843,573) | $ (6,650,164) |
| Adjustments: | | |
| Depreciation | 34,792 | 25,384 |
| Provision for doubtful accounts | 1,152 | 24,326 |
| Increase (decrease) in cash due to changes in: | | |
| Accounts receivable | (18,061) | 193,978 |
| Excess insurance recoverable | (124,971) | (219,992) |
| Prepaid expenses | 135,344 | (118,243) |
| Unpaid losses and loss adjustment expenses | 6,238,265 | 3,706,012 |
| Accounts payable | (149,542) | 186,265 |
| Payable to related entities, net | (718,659) | 640,555 |
| Advance premiums | 413,382 | 525,966 |
| Net cash used in operating activities | $ (4,031,871) | $ (1,685,913) |

*See accompanying notes.*

## 1. Description of Organization

Effective July 1, 1978, the Kentucky Association of Counties (KACo) and the Kentucky League of Cities, Inc. (KLC) formed the KACo-KLC Self-Insurance (KACo-KLC Fund). The KACo-KLC Fund was formed as a joint city/county group workers' compensation self-insurance fund.

Effective June 30, 1993, the KACo-KLC Fund ceased writing new business. In July 1, 1993, both KACo and KLC formed new, separate group workers' compensation self-insurance funds for their respective members. Kentucky League of Cities Workers' Compensation Trust (the Trust) was established under the authorization of the Kentucky Interlocal Cooperation Act of the Kentucky Revised Statues. It is an unincorporated, nonprofit trust voluntarily established by the participating cities, urban-county governments and related public agencies and political subdivisions within the Commonwealth of Kentucky.

The Trust 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. The Trust's general objectives are to formulate, develop and administer, on behalf of the member political subdivisions, a workers' compensation insurance program and to obtain lower costs for that coverage. All coverages are written on an occurrence basis. Participation in the Trust included 373 and 381 members as of June 30, 2015 and 2014, respectively.

On July 1, 1995 the assets, liabilities, and responsibility for effective claims administration stemming from existing open claims obligations of the KACo-KLC Fund were divided proportionally between the KACo Fund and the Trust. The Trust's portion of the KACo-KLC Fund is known as the Prior Workers' Compensation Fund, which is now a component of the Trust.

Following is a description of the most significant risks facing property/casualty insurers and how the Trust 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 cost for the insurer beyond those currently recorded in the financial statements. The Trust 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. The Trust 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.

## 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. The Trust 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, the Trust would have to sell assets prior to maturity and recognize a gain or loss. The Trust uses the segmented time distribution method to measure interest rate risk.

## 2. Summary of Significant Accounting Policies

Basis of Accounting

The Trust 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.

The Trust 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 Trust follows GASB pronouncements and all Financial Accounting Standards Board and predecessor boards' pronouncements except those that conflict with or contradict GASB pronouncements.

Use of Estimates

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

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

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

## 2. Summary of Significant Accounting Policies, continued

Investment Securities

Investment securities consist of fixed maturity debt and equity securities that the Trust 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, reported within 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 purpose of the statement of cash flows, the Trust 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, the Trust 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.

Equipment

Equipment consists of computer equipment and related 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. All policy years coincide with the Trust's fiscal year.

## 2. Summary of Significant Accounting Policies, continued

Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses are based on estimates of the ultimate cost of claims (including future claims adjustment expense) that have been reported but not settled, and of claims that have been incurred but not yet reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation and excess insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims cost depends 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 $7,899,881 and $6,629,069 as of June 30, 2015 and 2014, respectively. The effect of discounting on the provision for losses and loss adjustment expenses was a decrease of $1,270,812 and $689,948 in 2015 and 2014, respectively.

Excess Insurance

Excess insurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the excess insurance contracts. Premiums, losses, and loss adjustment expenses are reported net of excess insurance amounts. The Trust evaluates the financial condition of its excess carriers to minimize its exposure to significant losses from reinsurer insolvencies. The Trust holds funds and collateral as security under excess insurance agreements in the form of letters of credit for any excess 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.

## 2. Summary of Significant Accounting Policies, continued

Net Position

The Board of Trustees may, at its discretion, refund to members the savings, if any, resulting from operations of the Trust in the form of dividends or reduced premiums. The amount of any future dividends or reductions in premiums is dependent on the Trust's ultimate liability for claims incurred and, accordingly, the amount may differ from the net position. No refunds were issued during 2015 or 2014.

In the event of adverse loss experience, the Trust 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. Capital contributions are refundable only at the discretion of the Board of Trustees. There have been no assessments levied since the inception of the Trust.

Federal Income Taxes

The Internal Revenue Service has ruled that the income of the Trust 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 November 4, 2015, the date that the financial statements were available to be issued. Other than as discussed at Note 8, there were no events occurring during the evaluation period that require recognition or disclosure in the financial statements.

## 3. Deposits and Investments

The composition of the Trust's investment portfolio must meet certain criteria as set forth in the Kentucky Administrative Regulations. Investments held by the Trust as of June 30, 2014 and 2013 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Deposits and investments classified as cash and cash equivalents: | | |
| Cash and cash equivalents | $ 1,915,293 | $ 4,091,023 |
| Money market mutual funds and uninvested cash | 4,844,335 | 3,628,002 |
| | 6,759,628 | 7,719,025 |
| Investments classified as investment securities: | | |
| Corporate bonds | 1,040,562 | 1,046,419 |
| Municipal bonds | 29,269,071 | 30,376,227 |
| U.S. government agency obligations | 493,020 | - |
| Equity securities | 469,398 | 2,070,271 |
| Equity mutual funds | 8,802,185 | 8,748,931 |
| | 40,074,236 | 42,241,848 |
| Total deposits and investments | $ 46,833,864 | $ 49,960,873 |

As of June 30, 2015, the Trust had the following investment maturities in years:

| | Less than 1 | 1-5 | 6-10 | More than 10 |
|---|---|---|---|---|
| Corporate bonds | $ - | $ 519,382 | $ 521,180 | $ - |
| Municipal bonds | 760,538 | 5,491,868 | 10,250,722 | 12,765,943 |
| U.S. government agency obligations | - | - | 493,020 | - |
| Total maturities | $ 760,538 | $ 6,011,250 | $ 11,264,922 | $ 12,765,943 |

Interest and investment revenue is comprised of the following for the years ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Interest and dividend income | $ 1,256,401 | $ 1,671,631 |
| Realized gain on sales of securities | 1,229,657 | 855,945 |
| Interest from surplus note receivable | 315,200 | 315,200 |
| Unrealized (loss) gain on securities | (1,544,421) | 1,386,902 |
| | $ 1,256,837 | $ 4,229,678 |

## 3. Deposits and Investments, continued

Credit Risk

State law and the Trust investment guidelines assert that corporate bonds are allowable if issued, assumed, or guaranteed by a solvent institution created and existing under the laws of the United States of America. They also state that corporate bond investments shall not exceed 15% of the total market value of the portfolio at the time of purchase and that the bond has a minimum rating of A.

State law and the Trust investment guidelines assert that no individual equity holding shall comprise greater than 10% of the equity portion of the portfolio at the time of purchase. Both also state 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, both state 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 held with registered investment advisors licensed by the Securities Exchange Commission and the 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.

With respect to cash and statute defined bonds, both sets of guidelines state that, of the total investments held, no less than 75% of the total market value shall be held in cash, cash equivalents, and fixed income. Also, not less than 15% of the total investments shall be held in cash, cash equivalents or U.S. Treasuries and federal agency securities with a 1 year or less maturity. The Trust may also invest surplus funds or reserves not needed for current obligations in the following: U.S. government bonds, Treasury notes and T-bills or other direct obligations guaranteed by the full faith and credit of the United States of America, tax exempt obligations issued by Kentucky or its agencies with a minimum Standard and Poor (S&P) rating of A.

Furthermore, the Trust may also invest in obligations issued by a country, district, municipality or other legal authority within Kentucky with a minimum S&P rating of AA. Investments may also be made in investment share accounts in a savings and loan institution in Kentucky which is insured by the Federal Deposit Insurance Corporation. Finally, the Trust may also invest in certificates of deposit if issued by a duly chartered commercial bank in Kentucky.

As of June 30, 2015, the Trust was invested in government agency, municipal and corporate bonds, common stocks and mutual funds. Of these bonds that were rated, all ranged in ratings from A- to AAA. The Trust also invested in money market funds that were not rated.

Concentration of Credit Risk

As of June 30, 2015, the Trust held debt and equity securities in excess of 5% of the Trust's total investments issued by the following issuers: Hotchkis & Wiley Mutual Funds (10.4%), Kentucky Property and Building Commission (10.4%), and the Kentucky Bond Corporation (7.3%).

## 3. Deposits and Investments, continued

Custodial Credit Risk - Deposits

The Trust maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Trust 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 the years ended June 30, 2015 and 2014, respectively, the Trust purchased specific excess insurance coverage from Safety National, an "A+" (Superior) rated insurer rated by A.M. Best and Company, for the excess layer of insurance only to cover losses in excess of $1,250,000. The Trust must self-insure up to the $1,250,000 per occurrence limit. For 2015 and 2014, employer's liability loss limitations were $4,000,000 (retention of $1,250,000 plus $2,750,000 of excess insurance).

Although the purchase of excess insurance coverage does not discharge the Trust 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 the Trust for accounting purposes to treat insured risks, to the extent of excess insurance coverage, as though they were risks for which the Trust is not liable. However, the Trust remains contingently liable in the event its excess insurance carriers are unable to meet their contractual obligations.

Excess insurance premiums ceded for the years ended June 30, 2015 and 2014, were $880,281 and $881,546, respectively. Additional recoveries accrued on paid claims during 2015 and 2014 were $556,242 and $606,235, 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 $18,636,249 and $14,650,736 in 2015 and 2014, respectively.

## 5. Letter of Credit

To satisfy requirements of the Department, the Trust maintains safekeeping account with a bank with permitted borrowings of $3.7 million as of June 30, 2015, renewable annually. As of June 30, 2015 and 2014, no amounts were outstanding under the letter of credit.

## 6. Related Party Transactions

The following are related entities of the Trust:

Kentucky League of Cities (KLC)
Kentucky League of Cities Insurance Agency (KLCIA)
Kentucky League of Cities Premium Finance Company (KLCPFC)
Kentucky Local Government Health Trust (KLGHT)
Kentucky League of Cities Unemployment Compensation Reimbursement Trust (KLCUCRT)
Kentucky League of Cities Insurance Services Association (KLCIS)
Kentucky School Boards Insurance Trust Workers Compensation Fund (KSBITWCF)
Kentucky School Boards Insurance Trust Property and Liability Fund (KSBITPLF)

The Trust was organized by KLC at the request of the state municipalities. KLC provides substantially all of the Trust's 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 $1,721,364 and $1,828,820 for the years ended June 30, 2015 and 2014, respectively.

The Trust participates in a marketing agreement with KLCIA which provides that the Trust pay a commission for member accounts marketed or serviced by KLCIA. Commission expense under the agreement was $297,069 and $419,464 for the years ended June 30, 2015 and 2014, respectively.

The Trust's directors' and officers' insurance provides coverage for KLC board members. Also, certain trustees of the Trust are directors of KLC.

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

| | 2015 | 2014 |
|---|---|---|
| KLC accounts receivable (payable) | $ 161,424 | $ (161,946) |
| KLCUCRT accounts receivable (payable) | 16 | (649,403) |
| KLGHT accounts receivable | - | 160 |
| KLCPFC accounts payable | (95,926) | (4,030) |
| KLCIS accounts payable | (490,065) | (361,550) |
| KLCIA accounts receivable (payable) | (220) | 33,339 |
| Net payable to related entities | $ (424,771) | $ (1,143,430) |
| KSBITWCF surplus note and interest receivables | $ 6,058,400 | $ 5,841,700 |
| KSBITPLF surplus note and interest receivables | 2,772,000 | 2,673,500 |
| Impairment allowance (Note 8) | (8,000,000) | - |
| Total due from related entities | $ 830,400 | $ 8,515,200 |

## 7. 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:

| | 2015 | 2014 |
|---|---|---|
| Net unpaid losses and loss adjustment expenses, beginning of year | $ 36,515,469 | $ 32,809,457 |
| Incurred losses and loss adjustment expenses: | | |
| Provision for insured events of the current year | 12,756,000 | 10,920,000 |
| Increase in provision for insured events of prior years | 4,659,030 | 1,709,877 |
| Total incurred losses and loss adjustment expenses | 17,415,030 | 12,629,877 |
| Payments: | | |
| Losses and loss adjustment expenses attributable to insured events of the current year | 3,458,053 | 2,661,666 |
| Losses and loss adjustment expenses attributable to insured events of prior years | 7,718,712 | 6,262,199 |
| Total payments | 11,176,765 | 8,923,865 |
| Net unpaid losses and loss adjustment expenses, end of year | $ 42,753,734 | $ 36,515,469 |

An increase in the provision for insured events of prior years signifies that the Trust expects higher than anticipated ultimate losses in the final disposition of claims.

## 8. Surplus Note Agreements

At the direction and approval of the Department, on January 6, 2010, the Trust loaned $5,500,000 to Kentucky School Boards Insurance Trust (KSBIT) for its workers' compensation fund and loaned $2,500,000 to KSBIT for its property and liability self-insurance fund, which is evidenced by two surplus notes. Interest on the notes is due quarterly until the notes are paid in full. Interest is calculated at a rate per annum which shall be equal to the sum of the year to date yield on the S&P Index weighted at 20% plus the year to date yield on the Bar Cap Index weighted at 80%. Provided, however, in no event shall the annual interest rate be less than 1% or greater than 5%.

## 8. Surplus Note Agreements, continued

At the time the Trust made the loans to KSBIT, the Department stated to the Trust, KLC and KSBIT that to the extent that KSBIT was unable to generate a surplus from operating the self-insurance funds sufficient to repay the loans, KSBIT would be required to assess its members to repay the loans. In late September 2013, the Department changed its position and indicated that it does not believe an assessment should include the repayment of the $8,000,000 loans to the Trust. The Trust disagrees with the Department and filed a Declaratory Action against the Department on November 5, 2013 seeking a determination that assessments for the KSBITWCF and KSBITPLF must include assessments for all fund obligations including the loans evidenced by the surplus notes, or in the alternative, that the Commissioner of Insurance in her capacity as Rehabilitator for the KSBITWCF and KSBITPLF should be liable for the amount of the notes on the grounds of negligent misrepresentation, estoppel and equity. On October 27, 2015, the circuit court issued an opinion and order ruling that the loans did not have to be repaid through an assessment and ordering the refund of any interest that has been previously paid on the loans. The court noted that "this is a case of first impression in Kentucky," which means that there is no reported Kentucky appellate decision on the unique issues involved. In addition, since this a review of a summary judgment, the appellate court will conduct a full analysis of the merits and equities without having to give deference to the circuit court. Accordingly, the Trust is appealing that decision to the Kentucky Court of Appeals and based on input from legal counsel is confident as to merits of the appeal. The filing of the appeal by the Trust will stay the circuit court's decision during the appeal period. This means that the Trust will not be required to pay any sums of money to comply with that decision and the Trust will not experience any significant financial impact from the decision until all appeals have been exhausted. The appellate process could take from over 1 year to 4 years depending upon whether or not the case eventually gets heard by the Kentucky Supreme Court.

## 9. 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 has also been triggered in this litigation with a $4 million limit. The claim has been reported to the carrier and a defense is being provided for both entities under the policy under a reservation of rights. While KLC and KLCIS continue to dispute the substance of the complaint, a settlement is currently being discussed but no agreement has been finalized or approved by the court.

## 10. Management's Plans (Unaudited)

Management has been monitoring recent decreases in stated surplus levels. The decreases have resulted from an allowance against the surplus notes after an adverse ruling by the Franklin Circuit Court (see Note 8) and a program wide strengthening of case reserves. The KLCIS Board of Trustees is appealing the court's adverse decision on the surplus notes to the Kentucky Court of Appeals in a case of first impression. While management is confident in its chances of overturning the circuit court's ruling on appeal, management has chosen to take the most conservative position and recorded an allowance of 100% of the judgment ($8,000,000) from surplus. In addition, the operating losses recognized during the past two fiscal years have resulted from the strengthening of prior year policies' case reserves to more accurately reflect anticipated life time levels coupled with a sizable increase in claims frequency. As of March 31, 2015, all claims with a lifetime benefit exposure have been reserved to reflect that exposure. In 2014, the KLCIS Board of Trustees engaged an independent third party to verify the accuracy of the reserve levels. The review determined that the expected lifetime reserves established by KLCIS were at 98.7% of the reserve level the auditor would have selected. Management evaluated the noted differences and adjusted reserves to be at 100% of the auditor's selection. Management does not expect the level of operating losses recognized during the past two years to continue.

In addition to transitioning workers' compensation claims handling in-house in December 2013 and establishing higher reserve levels for claims with a lifetime exposure, management has engaged a third party administrator to provide field and telephonic nurse case management services between the medical provider and the claims adjuster. Management believes this change will improve overall medical results. Management is exploring a change to a Managed Care Organization model to provide higher quality care at a lower pricing structure with a target implementation date of July 1, 2016.

Loss control services include a new Claims Awareness Campaign designed for members with higher than average claim frequency. Detailed loss information is shared quarterly with a member's management team and with all employees. Forty-five percent of the claims reported in the last three years are from members who were selected to participate in the Claims Awareness Campaign. Loss control staff will be providing safety education to target members with higher claims frequency. Management will compile feedback from loss control to evaluate members' cooperation, commitment to risk management and individual results to influence pricing of individual member accounts. Management remains highly engaged with the pool actuary in monitoring results throughout the year and is implementing a pricing model that places a higher emphasis on loss control commitment.

Management remains steadfast in improving the long term operational results of the Trust. Much of management's plan has already been implemented with additional measures to be realized over the next several months. Changes made to insurance processes take several years before the full impact of decisions are realized. Management is committed to continuing sound underwriting of risks, reduction of claim frequency and controlling medical costs.

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DEAN DORTON ALLEN FORD, PLLC

## 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 Workers' Compensation Trust
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 Workers' Compensation Trust (the Trust), 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 November 4, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust'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 the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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.

106 W. Vine Street, Suite 600 • Lexington, KY 40507 • 859-255-2341 phone • 859-255-0125 fax
500 W. Jefferson Street, Suite 1400 • Louisville, KY 40202 • 502-589-6050 phone • 502-581-9016 fax
deandorton.com

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's 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 the Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

November 4, 2015
Lexington, Kentucky

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

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 the Trust 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 WORKERS' COMPENSATION TRUST

Claims Development Information (*Unaudited*)

Years ended June 30, 2006 through 2015

The following table illustrates how the Trust'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 Trust 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 Trust including overhead and claims expense not allocable to individual claims. (3) This line shows the Trust'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.

| | Fiscal and Policy Year Ended | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| (1) Earned premium revenue and net investment income: | | | | | | | | | | |
| Earned | $ 16,141,308 | $ 19,578,024 | $ 17,552,153 | $ 15,325,296 | $ 18,454,798 | $ 16,853,253 | $ 14,003,578 | $ 11,855,839 | $ 15,587,040 | $ 13,442,044 |
| Ceded | 1,095,237 | 1,700,660 | 1,340,759 | 1,219,481 | 1,368,978 | 847,592 | 738,366 | 784,959 | 881,546 | 880,281 |
| Net earned | 15,046,071 | 17,877,364 | 16,211,394 | 14,105,815 | 17,085,820 | 16,005,661 | 13,265,212 | 11,070,880 | 14,705,494 | 12,561,763 |
| (2) Unallocated expenses | 31,556,333 | 3,641,177 | 3,744,228 | 3,685,385 | 3,435,931 | 4,161,830 | 3,675,218 | 4,027,265 | 4,113,508 | 3,311,946 |
| (3) Estimated incurred claims and expenses, end of policy year: | | | | | | | | | | |
| Incurred | 11,810,000 | 12,060,000 | 12,000,000 | 10,980,000 | 9,300,000 | 9,280,000 | 8,396,000 | 8,870,000 | 10,920,000 | 12,756,000 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net incurred | 11,810,000 | 12,060,000 | 12,000,000 | 10,980,000 | 9,300,000 | 9,280,000 | 8,396,000 | 8,870,000 | 10,920,000 | 12,756,000 |
| (4) Net paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 3,050,893 | 2,918,294 | 2,242,501 | 2,625,675 | 2,173,724 | 2,412,348 | 2,166,759 | 1,903,747 | 2,661,666 | 3,458,053 |
| One year later | 5,615,096 | 5,710,452 | 3,713,329 | 4,582,157 | 4,267,533 | 4,305,129 | 4,210,478 | 4,142,788 | 5,318,318 | |
| Two years later | 7,138,085 | 7,349,053 | 4,700,280 | 5,962,097 | 5,408,939 | 5,732,604 | 5,491,502 | 5,232,100 | | |
| Three years later | 7,638,292 | 8,400,115 | 5,134,088 | 6,829,093 | 5,824,803 | 6,653,669 | 6,056,594 | | | |
| Four years later | 8,087,935 | 8,995,800 | 5,424,794 | 7,598,442 | 5,980,736 | 7,749,815 | | | | |
| Five years later | 8,386,011 | 9,258,624 | 5,746,855 | 8,189,556 | 6,205,615 | | | | | |
| Six years later | 8,513,158 | 9,453,920 | 5,876,953 | 8,690,933 | | | | | | |
| Seven years later | 8,662,775 | 9,647,416 | 6,362,946 | | | | | | | |
| Eight years later | 8,747,881 | 10,212,877 | | | | | | | | |
| Nine years later | 8,871,593 | | | | | | | | | |
| (5) Reestimated ceded claims and expenses | - | - | - | - | - | - | - | - | - | - |
| (6) Reestimated net incurred claims and expenses: | | | | | | | | | | |
| End of policy year | 11,810,000 | 12,060,000 | 12,000,000 | 10,980,000 | 9,300,000 | 9,280,000 | 8,396,000 | 8,870,000 | 10,920,000 | 12,756,000 |
| One year later | 11,536,000 | 12,866,000 | 10,250,000 | 10,580,000 | 9,000,000 | 8,770,000 | 8,700,000 | 9,240,000 | 11,313,000 | |
| Two years later | 11,306,000 | 12,099,000 | 9,370,000 | 10,300,000 | 8,360,000 | 9,730,000 | 9,390,000 | 10,188,000 | | |
| Three years later | 10,812,000 | 12,055,000 | 8,240,000 | 10,560,000 | 8,525,000 | 10,380,000 | 11,253,000 | | | |
| Four years later | 10,796,000 | 11,772,000 | 7,270,000 | 10,680,000 | 8,490,000 | 11,284,000 | | | | |
| Five years later | 10,512,000 | 12,104,000 | 7,240,000 | 12,010,000 | 8,381,000 | | | | | |
| Six years later | 10,467,000 | 12,182,000 | 7,150,000 | 12,956,000 | | | | | | |
| Seven years later | 10,265,412 | 12,109,000 | 7,139,549 | | | | | | | |
| Eight years later | 10,092,067 | 12,598,000 | | | | | | | | |
| Nine years later | 10,109,131 | | | | | | | | | |
| (7) Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year | (1,700,869) | 538,000 | (4,860,451) | 1,976,000 | (919,000) | 2,004,000 | 2,857,000 | 1,318,000 | 393,000 | - |

*See report of independent auditors.*