



Financial Statements and Supplementary Information

for

**KENTUCKY LEAGUE OF CITIES
INSURANCE SERVICES
ASSOCIATION**

Years Ended June 30, 2021 and 2020
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 - 21
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 Auditing Standards</i>	22 - 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, 2021 and 2020, 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 net position of Kentucky League of Cities Insurance Services Association as of June 30, 2021 and 2020, the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the beginning net position balance for the liability and property pools have been restated to reflect management's reallocation of investment income between the pools. 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 - 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise KLCIS' basic financial statements. The accompanying supplementary information on pages 24 - 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2021 on our consideration of KLCIS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KLCIS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KLCIS' internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
October 19, 2021

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, 2021. 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 \$18,175,987 for the current fiscal year, resulting in an overall increase in net position of \$42,705,989 since 2015. This growth in surplus better positions KLCIS in the event of possible adverse claims development while at the same time providing more rate stability for our members.

Table 1
Net Position

	<u>2021</u>	<u>2020</u>
Cash and investments	\$ 105,461,158	\$ 88,719,776
Capital and other assets	<u>6,982,829</u>	<u>6,948,323</u>
Total assets	112,443,987	95,668,099
Unpaid losses and loss adjustment expenses	42,944,747	43,458,636
Other liabilities	<u>2,874,555</u>	<u>3,760,765</u>
Total liabilities	<u>45,819,302</u>	<u>47,219,401</u>
Net position	<u>\$ 66,624,685</u>	<u>\$ 48,448,698</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 \$1,329,304, or 4.50%, from the prior fiscal year. Current year investment and other revenue increased \$9,031,347, or 299.09% from the prior year. Loss and loss adjustment expense increased in the prior year while the current year experienced a decrease (see Footnote 7 for details). Both 2021 and 2020 results were very positive. The change in net position was an increase of 37.5% and 2.9% for 2021 and 2020, respectively.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Management's Discussion and Analysis (*Unaudited*), continued

Statement of Revenues, Expenses and Changes in Net Position, continued

Table 2
Change in Net Position

Year ended June 30,	<u>2021</u>	<u>2020</u>
Net premiums earned	\$ 30,840,170	\$ 29,510,866
Investment and other revenue	<u>12,050,941</u>	<u>3,019,594</u>
Total revenue	42,891,111	32,530,460
Losses and loss adjustment expenses	13,271,900	19,509,871
General administrative expenses	<u>11,443,224</u>	<u>11,638,940</u>
Total expenses	<u>24,715,124</u>	<u>31,148,811</u>
Change in net position	\$ <u>18,175,987</u>	\$ <u>1,381,649</u>

Description of Current and Expected Conditions

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

Contacting the Organization's Financial Management

This financial report is designed to provide a general overview of 2021 and to show KLCIS' accountability to its members. If you have any questions about this report or need additional information, contact the Kentucky League of Cities office at 100 East Vine Street, Suite 800, Lexington, KY 40507.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Net Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Investment securities, at fair value	\$ 77,398,663	\$ 77,826,881
Cash and cash equivalents	28,062,495	10,892,895
Accounts receivable, net of allowance for doubtful accounts of \$14,504 and \$20,604 for 2021 and 2020, respectively	420,561	173,582
Excess insurance recoverable	1,141,044	17,768
Receivable from related entities, net	419,422	1,836,559
Accrued investment income	295,211	328,119
Prepaid expenses	152,753	153,710
Membership in NLC Mutual Insurance Company	4,539,659	4,386,144
Property and equipment, net of accumulated depreciation of \$473,346 and \$435,084 for 2021 and 2020, respectively	<u>14,179</u>	<u>52,441</u>
Total assets	112,443,987	95,668,099
Liabilities		
Unpaid losses and loss adjustment expenses:		
Reported claims	31,136,777	32,205,817
Incurred but not reported claims	10,291,645	9,739,674
Unallocated loss adjustment expenses	<u>1,516,325</u>	<u>1,513,145</u>
Total unpaid losses and loss adjustment expenses	42,944,747	43,458,636
Accounts payable	531,690	457,598
Advance premiums	<u>2,342,865</u>	<u>3,303,167</u>
Total liabilities	<u>45,819,302</u>	<u>47,219,401</u>
Net Position		
Net position	<u>\$ 66,624,685</u>	<u>\$ 48,448,698</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenue:		
Net premiums earned	\$ 30,840,170	\$ 29,510,866
Operating expenses:		
Losses and loss adjustment expenses	13,271,900	19,509,871
Commission expense	3,568,293	3,403,432
Claims administration expense	1,385,047	1,336,708
Loss prevention expenses	220,156	213,812
Professional fees	601,618	656,018
Administrative fees, related entity	5,066,183	5,436,789
Other expenses	<u>601,927</u>	<u>592,181</u>
Total operating expenses	<u>24,715,124</u>	<u>31,148,811</u>
Operating income (loss)	6,125,046	(1,637,945)
Nonoperating revenue:		
Interest and investment revenue	11,886,620	2,692,553
Other income	<u>164,321</u>	<u>327,041</u>
Total nonoperating revenue	<u>12,050,941</u>	<u>3,019,594</u>
Change in net position	18,175,987	1,381,649
Net position, beginning of year	<u>48,448,698</u>	<u>47,067,049</u>
Net position, end of year	\$ <u>66,624,685</u>	\$ <u>48,448,698</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Premiums collected	\$ 29,638,989	\$ 28,748,663
Losses and loss adjustment expenses paid	(13,785,789)	(12,995,039)
Underwriting expenses paid	(9,945,817)	(10,907,103)
Other payments	<u>(1,085,529)</u>	<u>(1,055,520)</u>
Net cash provided by operating activities	4,821,854	3,791,001
Cash flows from investing activities:		
Purchases of investments	(32,135,990)	(30,326,072)
Proceeds from maturity of investments	12,699,526	12,086,592
Proceeds from sale of investments	27,505,062	18,461,692
Interest, dividends and gains received	<u>4,279,148</u>	<u>1,690,005</u>
Net cash provided by investing activities	12,347,746	1,912,217
Cash flows from capital and related financing activities:		
Purchase of property and equipment	<u>-</u>	<u>(14,547)</u>
Net increase in cash and cash equivalents	17,169,600	5,688,671
Cash and cash equivalents, beginning of year	<u>10,892,895</u>	<u>5,204,224</u>
Cash and cash equivalents, end of year	\$ <u>28,062,495</u>	\$ <u>10,892,895</u>

See accompanying notes.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Cash Flows, continued

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 6,125,046	\$ (1,637,945)
Adjustments:		
Depreciation	38,262	33,591
Recovery of doubtful accounts	(6,100)	(48,564)
Other income	164,321	327,041
Increase (decrease) in cash due to changes in:		
Accounts receivable	(240,879)	84,097
Excess insurance recoverable	(1,123,276)	(9,154)
Receivable from related entities, net	1,417,137	(506,584)
Prepaid expenses	957	653
Membership in NLC Mutual Insurance Company	(153,515)	(160,572)
Unpaid losses and loss adjustment expenses	(513,889)	6,514,832
Accounts payable	74,092	39,906
Advance premiums	<u>(960,302)</u>	<u>(846,300)</u>
Net cash provided by operating activities	<u>\$ 4,821,854</u>	<u>\$ 3,791,001</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 449 and 402 members, respectively, as of June 30, 2021, and 440 and 394 members, respectively, as of June 30, 2020.

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

Legal/Regulatory Risk

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

Credit Risk

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

Geographic Risk

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

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.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Use of Estimates

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

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

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

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Investment Securities

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

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Membership in NLC Mutual Insurance Company

The membership in NLC Mutual Insurance Company is carried at cost plus allocated surplus as allowed by the Department.

Property and Equipment

Property and equipment consist of furniture and fixtures, including 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.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Unpaid Losses and Loss Adjustment Expenses

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

To reflect its present value, the liability for unpaid losses and loss adjustment expenses has been discounted at 3% for both 2021 and 2020. Discounting reduced the liability by \$2,208,093 and \$2,468,826 as of June 30, 2021 and 2020, respectively. The effect of discounting on the provision for losses and loss adjustment expenses was an increase of \$260,733 and a decrease of \$61,187 in 2021 and 2020, respectively.

Excess Insurance

Excess insurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the excess insurance contracts. Premiums, losses, and loss adjustment expenses are reported net of excess insurance amounts. KLCIS evaluates the financial condition of its excess insurance carriers to minimize its exposure to significant losses from insolvencies. KLCIS holds funds and collateral as security under excess insurance agreements in the form of letters of credit for any excess insurance carriers not subject to the regulation of the Kentucky Commissioner of Insurance. In the opinion of management, all amounts due from excess insurance carriers at June 30, 2021 and 2020 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 the position. No refunds were issued during 2021 or 2020.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Net Position, continued

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

In the event of adverse loss experience, KLCIS can assess additional amounts to the members. An assessment would be computed and established by the Board of Trustees with each member's share being in proportion to their annual premiums relative to premiums of all members. Capital contributions are refundable only at the discretion of the Board of Trustees. 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.

COVID-19

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. KLCIS is closely monitoring the impact of the COVID-19 pandemic on all aspects of its operations. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts KLCIS will depend on future developments, which are highly uncertain and cannot be predicted.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through October 19, 2021, the date that the financial statements were available to be issued.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

3. Restatement

During fiscal year ended June 30, 2021, KLCIS determined, based on internal review, that the financial statements for the liability and property pools did not accurately reflect the relative financial health of each respective pool. It was determined that the discrepancy was due in large part to the method used to allocate investment income between the two pools. Previously, the allocation was based on the relative premium dollars earned by each pool. Based on internal review of 10 years of data, KLCIS noted over time the liability pool's reserves plus net asset ratio had grown considerably while the pool's respective premium earned ratios remained largely unchanged. Management implemented an allocation method more closely aligned to the costs and risks of each pool, it was determined that investment yield was largely determined by both the invested amount of net assets as well as each pool's invested amount of net reserves. Management determined allocating investment income based on the pool's relative reserves plus net asset ratios achieved an allocation which more closely aligned with those costs and risks and timing for investment earnings. As a result of the change in investment income allocation, KLCIS has recorded a true up entry and restated the beginning net assets, as described below.

As a result, KLCIS restated 2020 receivable from related entities and interest and investment income and net position as of June 30, 2019 to reflect the true up adjustment for liability and property pools for investment income re-allocation for the prior 10 years. This restatement results in the following changes on pages 24 and 25:

	As Previously Reported	As Restated	Change
Liability Pool:			
Receivable from related entities, net	\$ (17,411,890)	\$ (15,701,651)	\$ 1,710,239
Interest and investment income	1,912,963	2,193,294	280,331
Net position, June 30, 2020	31,019,637	32,729,876	1,710,239
Net position, June 30, 2019	31,463,893	32,893,801	1,429,908
Property Pool:			
Receivable from related entities, net	19,248,449	17,538,210	(1,710,239)
Interest and investment income	779,590	499,259	(280,331)
Net position, June 30, 2020	17,429,061	15,718,822	(1,710,239)
Net position, June 30, 2019	15,603,156	14,173,248	(1,429,908)

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

3. Restatement, continued

Additionally, this restatement results in adjustment to section (1) Earned premium revenue and net investment income on the Claims Development Information schedules on pages 26 and 27.

4. 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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	\$ 2,117,546	\$ 1,319,361
Money market mutual funds	<u>25,944,949</u>	<u>9,573,534</u>
	28,062,495	10,892,895
Investments classified as investment securities:		
Certificates of deposit	11,903,252	16,648,267
Corporate bonds	5,933,833	7,289,508
Municipal bonds	8,073,616	4,528,233
Government obligations	5,091,830	4,633,060
U.S. government agency obligations	7,235,062	11,851,121
Equity mutual funds	19,604,071	16,133,143
Equity securities	<u>19,556,999</u>	<u>16,743,549</u>
	<u>77,398,663</u>	<u>77,826,881</u>
Total deposits and investments	<u>\$105,461,158</u>	<u>\$88,719,776</u>

As of June 30, 2021, 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	\$ 6,294,908	\$ 5,608,344	\$ -	\$ -
Corporate bonds	1,526,903	3,614,298	792,632	-
Municipal bonds	1,495,603	4,725,944	312,069	1,540,000
Government obligations	2,517,985	2,573,845	-	-
U.S. government agency obligations	<u>2,837,856</u>	<u>3,523,416</u>	<u>130,871</u>	<u>742,919</u>
Total maturities	<u>\$ 14,673,255</u>	<u>\$ 20,045,847</u>	<u>\$ 1,235,572</u>	<u>\$ 2,282,919</u>

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

4. Deposits and Investments

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

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 1,562,316	\$ 1,946,645
Net realized gains (losses) on sales of securities	2,683,924	(218,147)
Unrealized gains on securities, net	<u>7,640,380</u>	<u>964,055</u>
	<u>\$ 11,886,620</u>	<u>\$ 2,692,553</u>

Fair Value

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

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

Credit Risk

Pursuant to state law, no more than 20% of net position may be invested in medium and lower grade investments; no more than 10% of net position 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 net position; investments with a rating of 6 from a NRSRO cannot exceed 1% of net position. 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 net position. 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 net position shall be invested in any single asset or, for asset backed securities, any single pool of assets.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

4. Deposits and Investments

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, 2021, KLCIS was invested in the following government agency bonds; Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Fresh MultiFamily Mortgage PAS Series, Federal National Mortgage Association, and Government National Mortgage A Series. Of these bonds that were rated, all had AAA ratings. KLCIS also invested in corporate bonds which ranged in ratings from A3 to AAA. Additional investments included municipal bonds, all of which had A1 to AAA ratings.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

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

5. Excess Insurance

For 2021 and 2020, 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 corridor of \$1,500,000 for both 2021 and 2020. For 2020 the excess insurance carriers maintained equal participation for the policy. For 2021 the excess insurance carriers rated "A+" held 75% participation in the policy while carriers rated "A" held 25% participation in the policy. There is also cyber liability coverage in place with a \$50,000 retention.

Excess insurance coverage for the property pool is purchased from various excess insurance carriers, each of which has been assigned a rating of "A+" or "A++" (Superior) by A.M. Best and Company. The policy is for specific coverage for claims in excess of \$750,000, 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.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

5. Excess Insurance, continued

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

Excess insurance premiums ceded were \$3,593,106 and \$3,165,578 for the years ended June 30, 2021 and 2020, respectively. Additional losses accrued on paid claims during 2021 and 2020 were \$5,956,309 and \$822,253, 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 \$5,782,381 and \$6,730,459 in 2021 and 2020, respectively.

6. Related Party Transactions

The following are related entities of KLCIS:

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

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 \$5,066,183 and \$5,436,789 for the years ended June 30, 2021 and 2020, 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 \$1,055,158 and \$1,022,940 for the years ended June 30, 2021 and 2020, respectively.

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

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

6. Related Party Transactions, continued

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

	<u>2021</u>	<u>2020</u>
KLC accounts receivable	\$ 109,383	\$ 34,453
KLCUCRT accounts receivable	13,226	-
KLCWCT accounts receivable	321,588	1,803,938
KLCIA accounts payable	<u>(24,775)</u>	<u>(1,832)</u>
Net receivable from related entities	<u>\$ 419,422</u>	<u>\$ 1,836,559</u>

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Notes to the Financial Statements, continued

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, 2021 and 2020 is summarized as follows:

	<u>Liability Pool</u>		<u>Property Pool</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net unpaid losses and loss adjustment expenses, beginning of year	\$42,416,145	\$36,187,870	\$ 1,042,491	\$ 755,934
Incurred losses and loss adjustment expenses:				
Provision for insured events of the current year	15,100,481	15,806,617	2,204,995	2,363,415
(Decrease) increase in provision for insured events of prior years	<u>(3,871,482)</u>	<u>836,733</u>	<u>(162,094)</u>	<u>503,106</u>
Total incurred losses and loss adjustment expenses	11,228,999	16,643,350	2,042,901	2,866,521
Payments:				
Losses and loss adjustment expenses attributable to insured events of the current year	4,219,730	2,506,577	1,119,692	1,400,920
Losses and loss adjustment expenses attributable to insured events of prior years	<u>7,852,246</u>	<u>7,908,498</u>	<u>594,121</u>	<u>1,179,044</u>
Total payments	12,071,976	10,415,075	1,713,813	2,579,964
Net unpaid losses and loss adjustment expenses, end of year	<u>\$41,573,168</u>	<u>\$42,416,145</u>	<u>\$ 1,371,579</u>	<u>\$ 1,042,491</u>

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

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

Report of Independent Auditors

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kentucky League of Cities Insurance Services Association (KLCIS), which comprise the statement of net position as of June 30, 2021, 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, 2021.

Internal Control Over Financial Reporting

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

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

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

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

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 KLCIS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
October 19, 2021

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Statements of Net Position Information

June 30, 2021 and 2020

Assets	2021			2020		
	Liability Pool	Property Pool	Total	Liability Pool	Property Pool	Total
Investment securities, at fair value	\$ 77,398,663	\$ -	\$ 77,398,663	\$ 77,826,881	\$ -	\$ 77,826,881
Cash and cash equivalents	26,951,019	1,111,476	28,062,495	10,467,821	425,074	10,892,895
Accounts receivable, net	343,260	77,301	420,561	135,802	37,780	173,582
Excess insurance recoverable	1,141,044	-	1,141,044	9,154	8,614	17,768
Receivable from related entities, net	(20,827,822)	21,247,244	419,422	(15,701,651)	17,538,210	1,836,559
Accrued investment income	295,211	-	295,211	328,119	-	328,119
Prepaid expenses	109,899	42,854	152,753	114,683	39,027	153,710
Membership in NLC Mutual Insurance Company	4,539,659	-	4,539,659	4,386,144	-	4,386,144
Property and equipment, net	<u>14,179</u>	<u>-</u>	<u>14,179</u>	<u>52,441</u>	<u>-</u>	<u>52,441</u>
Total assets	89,965,112	22,478,875	112,443,987	77,619,394	18,048,705	95,668,099
Liabilities						
Unpaid losses and loss adjustment expenses:						
Reported claims	30,324,546	812,231	31,136,777	31,409,963	795,854	32,205,817
Incurred but not reported claims	9,780,049	511,596	10,291,645	9,522,923	216,751	9,739,674
Unallocated loss adjustment expenses	<u>1,468,573</u>	<u>47,752</u>	<u>1,516,325</u>	<u>1,483,259</u>	<u>29,886</u>	<u>1,513,145</u>
Total unpaid loss and loss adjustment expenses	41,573,168	1,371,579	42,944,747	42,416,145	1,042,491	43,458,636
Accounts payable	344,023	187,667	531,690	308,454	149,144	457,598
Advance premiums	<u>1,536,034</u>	<u>806,831</u>	<u>2,342,865</u>	<u>2,164,919</u>	<u>1,138,248</u>	<u>3,303,167</u>
Total liabilities	<u>43,453,225</u>	<u>2,366,077</u>	<u>45,819,302</u>	<u>44,889,518</u>	<u>2,329,883</u>	<u>47,219,401</u>
Net Position						
Net position	<u>\$ 46,511,887</u>	<u>\$ 20,112,798</u>	<u>\$ 66,624,685</u>	<u>\$ 32,729,876</u>	<u>\$ 15,718,822</u>	<u>\$ 48,448,698</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, 2021 and 2020

	2021			2020		
	<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	\$ 23,599,735	\$ 7,240,435	\$ 30,840,170	\$ 22,423,072	\$ 7,087,794	\$ 29,510,866
Operating expenses:						
Losses and loss adjustment expenses	11,228,999	2,042,901	13,271,900	16,643,350	2,866,521	19,509,871
Commission expense	2,394,254	1,174,039	3,568,293	2,272,690	1,130,742	3,403,432
Claims administration expense	1,243,876	141,171	1,385,047	1,200,431	136,277	1,336,708
Loss prevention expenses	220,156	-	220,156	213,812	-	213,812
Professional fees	415,754	185,864	601,618	483,219	172,799	656,018
Administrative fees, related entity	3,600,391	1,465,792	5,066,183	3,853,654	1,583,135	5,436,789
Other expenses	<u>419,479</u>	<u>182,448</u>	<u>601,927</u>	<u>413,418</u>	<u>178,763</u>	<u>592,181</u>
Total operating expenses	<u>19,522,909</u>	<u>5,192,215</u>	<u>24,715,124</u>	<u>25,080,574</u>	<u>6,068,237</u>	<u>31,148,811</u>
Operating income (loss)	4,076,826	2,048,220	6,125,046	(2,657,502)	1,019,557	(1,637,945)
Nonoperating revenue:						
Interest and investment revenue	9,541,029	2,345,591	11,886,620	2,193,294	499,259	2,692,553
Other income	<u>164,156</u>	<u>165</u>	<u>164,321</u>	<u>300,283</u>	<u>26,758</u>	<u>327,041</u>
Total nonoperating revenue	<u>9,705,185</u>	<u>2,345,756</u>	<u>12,050,941</u>	<u>2,493,577</u>	<u>526,017</u>	<u>3,019,594</u>
Change in net position	13,782,011	4,393,976	18,175,987	(163,925)	1,545,574	1,381,649
Net position, beginning of year, as restated (see Note 3)	<u>32,729,876</u>	<u>15,718,822</u>	<u>48,448,698</u>	<u>32,893,801</u>	<u>14,173,248</u>	<u>47,067,049</u>
Net position, end of year	<u>\$ 46,511,887</u>	<u>\$ 20,112,798</u>	<u>\$ 66,624,685</u>	<u>\$ 32,729,876</u>	<u>\$ 15,718,822</u>	<u>\$ 48,448,698</u>

See report of independent auditors.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Claims Development Information (*Unaudited*)

Years ended June 30, 2012 through 2021

The following table illustrates how KLCIS' 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 KLCIS 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 KLCIS including overhead and claims expense not allocable to individual claims. (3) This line shows KLCIS' 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									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
(1) Earned premium revenue and net investment income:										
Earned	\$ 17,706,005	\$ 19,468,578	\$ 23,149,510	\$ 21,096,151	\$ 21,918,482	\$ 23,941,402	\$ 24,327,448	\$ 25,463,859	\$ 25,475,281	\$ 34,152,114
Ceded	<u>1,485,434</u>	<u>1,509,347</u>	<u>861,673</u>	<u>814,264</u>	<u>851,204</u>	<u>845,929</u>	<u>849,731</u>	<u>838,620</u>	<u>858,915</u>	<u>1,011,350</u>
Net earned	<u>16,220,571</u>	<u>17,959,231</u>	<u>22,287,837</u>	<u>20,281,887</u>	<u>21,067,278</u>	<u>23,095,473</u>	<u>23,477,717</u>	<u>24,625,239</u>	<u>24,616,366</u>	<u>33,140,764</u>
(2) Unallocated expenses	5,884,973	6,310,423	6,836,321	7,525,621	7,480,663	7,747,468	7,771,671	8,178,320	8,437,221	8,293,910
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	11,620,409	9,359,780	10,029,264	12,181,056	13,229,616	13,195,056	14,183,494	16,426,564	18,562,914	12,895,486
Ceded	<u>130,886</u>	<u>-</u>	<u>-</u>	<u>425,000</u>	<u>-</u>	<u>138,912</u>	<u>-</u>	<u>-</u>	<u>2,756,297</u>	<u>-</u>
Net incurred	<u>11,489,523</u>	<u>9,359,780</u>	<u>10,029,264</u>	<u>11,756,056</u>	<u>13,229,616</u>	<u>13,056,144</u>	<u>14,183,494</u>	<u>16,426,564</u>	<u>15,806,617</u>	<u>12,895,486</u>
(4) Net paid (cumulative) as of:										
End of policy year	2,267,471	2,245,611	2,229,692	2,488,279	2,679,200	3,895,315	2,529,147	2,960,198	2,457,636	3,100,038
One year later	3,323,205	3,932,110	3,847,541	5,223,559	4,019,764	5,411,940	5,210,816	5,719,605	5,578,179	
Two years later	4,675,177	5,407,484	5,904,331	7,236,954	5,843,486	7,487,417	6,402,465	9,380,054		
Three years later	6,688,323	6,887,349	6,905,679	8,224,816	6,932,017	9,064,998	7,110,310			
Four years later	7,875,513	7,386,127	7,658,331	9,527,000	7,880,146	10,785,316				
Five years later	8,241,631	8,560,213	7,814,474	9,791,191	8,076,261					
Six years later	8,452,187	9,540,070	7,987,951	9,896,540						
Seven years later	8,706,411	9,558,440	8,069,583							
Eight years later	9,001,295	9,702,974								
Nine years later	9,146,992									
(5) Reestimated ceded claims and expenses	149,652	-	-	422,544	36,005	5,238,544	-	489,500	3,761,151	-
(6) Reestimated net incurred claims and expenses:										
End of policy year	11,489,523	9,359,780	10,029,264	11,756,056	13,229,616	13,056,144	14,183,494	16,426,564	15,806,617	12,895,486
One year later	9,343,837	10,253,312	11,255,500	12,131,029	11,469,116	15,703,315	11,466,076	16,714,554	15,652,360	
Two years later	8,958,107	9,117,285	11,003,103	12,259,293	10,345,283	15,926,202	11,237,612	17,649,200		
Three years later	8,310,205	10,276,155	10,070,777	12,267,550	9,657,747	14,544,984	11,662,420			
Four years later	8,794,676	11,194,089	9,100,186	11,326,117	11,079,079	13,853,486				
Five years later	9,094,724	10,524,549	8,935,727	10,665,166	11,083,638					
Six years later	9,354,562	10,060,219	8,837,590	10,441,928						
Seven years later	9,433,908	10,069,077	8,784,918							
Eight years later	9,825,956	9,767,798								
Nine years later	9,495,790									
(7) Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	(1,993,733)	408,019	(1,244,346)	(1,314,128)	(2,145,979)	797,342	(2,521,075)	1,222,636	(154,257)	-

See report of independent auditors.

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Claims Development Information (*Unaudited*)

Years ended June 30, 2012 through 2021

The following table illustrates how KLCIS' 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 KLCIS 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 KLCIS including overhead and claims expense not allocable to individual claims. (3) This line shows KLCIS' 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									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
(1) Earned premium revenue and net investment income:										
Earned	\$ 5,557,185	\$ 6,186,024	\$ 7,502,007	\$ 8,520,509	\$ 9,182,182	\$ 9,865,959	\$ 9,596,455	\$ 10,035,008	\$ 9,893,716	\$ 12,167,782
Ceded	<u>2,063,778</u>	<u>2,286,341</u>	<u>2,125,202</u>	<u>2,237,618</u>	<u>2,295,387</u>	<u>1,978,215</u>	<u>1,973,665</u>	<u>1,975,307</u>	<u>2,306,663</u>	<u>2,581,756</u>
Net earned	3,493,407	3,899,683	5,376,805	6,282,891	6,886,795	7,887,744	7,622,790	8,059,701	7,587,053	9,586,026
(2) Unallocated expenses	2,136,191	2,282,273	2,851,889	3,130,393	2,935,126	3,084,791	3,160,734	3,236,768	3,201,716	3,149,314
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	2,957,840	1,100,694	2,286,732	3,649,540	1,877,474	2,720,122	2,737,325	2,022,485	2,363,415	2,204,995
Ceded	<u>1,340,035</u>	-	-	<u>587,832</u>	-	-	-	-	-	-
Net incurred	1,617,805	1,100,694	2,286,732	3,061,708	1,877,474	2,720,122	2,737,325	2,022,485	2,363,415	2,204,995
(4) Net paid (cumulative) as of:										
End of policy year	1,040,802	600,248	1,304,738	1,933,426	1,207,446	1,302,920	1,702,818	1,295,593	1,400,920	1,119,692
One year later	1,659,994	965,289	2,186,741	2,781,374	1,873,956	2,059,648	1,952,795	1,804,634	1,910,313	
Two years later	1,756,055	968,967	2,043,484	2,891,379	1,873,956	2,067,736	1,957,057	1,806,454		
Three years later	1,793,232	968,967	2,040,812	2,978,303	1,869,881	2,067,736	1,956,762			
Four years later	1,789,956	968,967	2,041,916	2,978,303	1,871,065	2,067,736				
Five years later	1,789,955	968,967	2,041,916	2,978,303	1,855,760					
Six years later	1,789,956	968,967	2,041,916	2,978,303						
Seven years later	1,789,956	968,967	2,041,916							
Eight years later	1,789,956	968,967								
Nine years later	1,789,956									
(5) Reestimated ceded claims and expenses	1,868,930	-	-	442,871	-	-	-	-	-	-
(6) Reestimated net incurred claims and expenses:										
End of policy year	1,617,805	1,100,694	2,286,732	3,061,708	1,877,474	2,720,122	2,737,325	2,022,485	2,363,415	2,204,995
One year later	2,183,207	1,029,175	2,324,199	2,930,486	1,891,215	2,060,648	1,952,795	1,805,634	1,920,313	
Two years later	2,056,055	968,967	2,050,175	2,992,119	1,873,956	2,067,736	1,957,057	2,056,454		
Three years later	1,793,586	968,967	2,042,958	2,978,303	1,869,881	2,067,736	1,956,762			
Four years later	1,789,956	968,967	2,041,916	2,978,303	1,871,065	2,067,736				
Five years later	1,789,956	968,967	2,041,916	2,978,303	1,855,760					
Six years later	1,789,956	968,967	2,041,916	2,978,303						
Seven years later	1,789,956	968,967	2,041,916							
Eight years later	1,789,956	968,967								
Nine years later	1,789,956									
(7) Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	172,151	(131,727)	(244,816)	(83,405)	(21,714)	(652,387)	(780,563)	33,969	(443,102)	-

See report of independent auditors.