Financial Statements and Supplementary Information

for

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

Year Ended June 30, 2023
with Report of Independent Auditors

CONTENTS

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kentucky League of Cities Workers' Compensation Trust (the Trust), which comprise the statement of net position as of June 30, 2023, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the net position of the Trust, as of June 30, 2023, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Report on the Audit of the Financial Statements, continued

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

GAAP requires that the Management's Discussion and Analysis on pages 4 - 6 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of

Report on the Audit of the Financial Statements, continued

Required Supplementary Information, continued

inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Trust's financial statements. The supplementary information on page 27 is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplemental 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 been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report on October 18, 2023 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 the Trust's 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

Lexington, Kentucky
October 18, 2023

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

Management's Discussion and Analysis (*Unaudited*)

Year ended June 30, 2023

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, 2023. It should be read in conjunction with the financial statements, which begin on page 7.

Using this Annual Report

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

Adoption of New Accounting Standard

Effective July 1, 2022, the Trust adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs) (GASB 96). The objective of this statement is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for SBITAs, improving the comparability of financial statements among governments that have entered into SBITAs, and enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The statement requires recognition of certain right-to-use subscription assets and subscription liabilities for SBITAs and recognition of inflows of resources or outflows of resources based on the payment provisions of the agreement.

The adoption of this new standard had no significant impact on the financial statements of the Trust and there was no adjustment necessary to the opening balance of net position as a result of the implementation of GASB 96.

Statements of Net Position

Table 1 shows all the assets and liabilities of the Trust and is presented on the accrual basis of accounting. Total net position increased $4,274,667 for the current fiscal year, resulting in an overall increase in net position of $28,170,544 since 2015. This growth in surplus better positions the Trust in the event of possible adverse claims development while at the same time providing more rate stability for our members.

Table 1
Net Position

	2023	2022
Cash and investments	**$ 66,034,608**	$ 63,950,088
Capital and other assets	**3,418,496**	2,714,480
Total assets	**69,453,104**	66,664,568
Unpaid losses and loss adjustment expenses	**33,173,752**	33,780,299
Other liabilities	**3,163,596**	4,043,180
Total liabilities	**36,337,348**	37,823,479
Net position	**$ 33,115,756**	$ 28,841,089

Statements 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 of accounting. Net earned premium revenue increased $1,233,361, or 10.4%, from the prior fiscal year. Investment and other revenues resulted in a $3,972,254 gain. Favorable investment yields for the unrealized investments account for most of the significant change. Losses and loss adjustment expenses increased $5,111,719. Prior year results developed at lower than expected amounts. The Trust continues to focus efforts on reducing medical costs and reducing the number of new claims as discussed in the following paragraph.

Table 2
Change in Net Position

Year ended June 30,	2023	2022
Net premiums earned	**$ 13,092,337**	$ 11,858,976
Investment and other revenue (loss)	**3,972,254**	(4,230,749)
Total revenue	**17,064,591**	7,628,227
Losses and loss adjustment expenses	**8,073,018**	2,961,299
General administrative expenses	**4,716,906**	4,139,343
Total expenses and losses	**12,789,924**	7,100,642
Change in net position	**$ 4,274,667**	$ 527,585

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. 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 several years. All claims have been reviewed and revised based upon current information.

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. Also, a managed care organization was implemented effective July 1, 2016. Under this system, the Company Nurse has become mandatory for all members to report claims. A nurse triages the injury on the front end to help direct the employee to the most appropriate level of care. The Trust also contracted with a third party to provide in-office nurse case management for routine injuries and field nurse case management for serious injuries. In addition, an approved Preferred Provider Network of physicians was developed for the treatment of work-related injuries. The Trust's efforts continue to focus on reducing reported claims, efficiently closing claims, and managing medical costs. These changes have been crucial to the improved results for recent years. Management anticipates that these changes will continue to strengthen and improve the long-term results of the Trust's program.

The management of the Trust is not aware of any other significant changes in conditions that would have a significant effect on the financial position or results of operations of the Trust in the near future.

Contacting the Trust's Financial Management

This financial report is designed to provide a general overview of 2023 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

Statement of Net Position

June 30, 2023

Assets	
Investment securities, at fair value	**$ 57,538,576**
Cash and cash equivalents	**8,496,032**
Accounts receivable, net of allowance for doubtful accounts of $2,700	**137,141**
Excess insurance recoverable	**1,726,214**
Accrued investment income	**295,863**
Prepaid expenses	**82,382**
Membership in NLC Mutual Insurance Company	**1,159,125**
Capital assets, net	**17,771**
Total assets	**69,453,104**
Liabilities	
Unpaid losses and loss adjustment expenses:	
Reported claims	**28,985,559**
Incurred but not reported claims	**3,015,006**
Unallocated loss adjustment expenses	**1,173,187**
Total unpaid losses and loss adjustment expenses	**33,173,752**
Accounts payable	**617,151**
Payable to related entities, net	**1,653,375**
Advance premiums	**876,992**
Leases payable	**4,593**
SBITA liability	**11,485**
Total liabilities	**36,337,348**
Net Position	
Net position	**$ 33,115,756**

See accompanying notes.

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2023

Operating revenue:	
Net premiums earned	**$ 13,092,337**
Operating expenses:	
Losses and loss adjustment expenses	**8,073,018**
Administrative fees, related entity	**2,557,470**
Commission expense	**1,206,096**
Claims administration expense	**399,844**
Professional fees	**236,154**
Loss prevention expenses	**192,822**
Other expenses	**123,792**
Total operating expenses	**12,789,196**
Operating income	**303,141**
Nonoperating revenues (expenses):	
Net investment income	**3,918,326**
Interest expense	**(728)**
Other income	**53,928**
Total nonoperating revenues	**3,971,526**
Change in net position	**4,274,667**
Net position, beginning of year	**28,841,089**
Net position, end of year	**$ 33,115,756**

See accompanying notes.

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

Statement of Cash Flows

Year ended June 30, 2023

Cash flows from operating activities:	
Premiums collected	$ 12,809,935
Losses and loss adjustment expenses paid	(8,679,565)
Underwriting and administrative expenses paid	(5,657,138)
Other payments	(217,477)
Net cash used in operating activities	(1,744,245)
Cash flows from capital and related financing activities:	
Principal payment on leases payable	(5,936)
Principal payment on SBITA liability	(11,145)
Interest paid	(728)
Net cash used in capital and related financing activities	(17,809)
Cash flows from investing activities:	
Purchases of investments	(17,989,645)
Proceeds from maturity of investments	5,245,983
Proceeds from sale of investments	9,151,199
Interest, dividends and gains received	1,030,180
Net cash used in investing activities	(2,562,283)
Net decrease in cash and cash equivalents	(4,324,337)
Cash and cash equivalents, beginning of year	12,820,369
Cash and cash equivalents, end of year	$ 8,496,032

See accompanying notes.

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

Statement of Cash Flows, continued

Year ended June 30, 2023

Reconciliation of operating income to net cash used in operating activities:	
Operating income	**$ 303,141**
Adjustments:	
Depreciation and amortization	**15,239**
Provision for doubtful accounts	**(1,500)**
Other income	**53,928**
Increase (decrease) in cash due to changes in:	
Accounts receivable	**(31,896)**
Excess insurance recoverable	**(506,589)**
Prepaid expenses	**(60,388)**
Membership in NLC Mutual Insurance Company	**(24,500)**
Unpaid losses and loss adjustment expenses	**(606,547)**
Accounts payable	**159,690**
Payable to related entities, net	**(794,317)**
Advance premiums	**(250,506)**
Net cash used in operating activities	**$ (1,744,245)**

See accompanying notes.

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST

Notes to the Financial Statements

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 382 members as of June 30, 2023.

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:

<u>Legal/Regulatory Risk</u>

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. 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.

<u>Credit Risk</u>

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 Trust 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

Adoption of New Accounting Standard

Effective July 1, 2022, the Trust adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)* (GASB 96). The objective of this statement is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for SBITAs, improving the comparability of financial statements among governments that have entered into SBITAs, and enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The statement requires recognition of certain right-to-use subscription assets and subscription liabilities for SBITAs based on the payment provisions of the agreement.

Net position has not been impacted as a result of the implementation of GASB 96. Effective July 1, 2022, upon adoption of GASB 96, the Trust recorded a SBITA liability and subscription right-to-use assets of $21,665, representing the present value of payments expected to be made during the remaining term of the SBITAs.

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, 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, the Trust 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, 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 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.

2. Summary of Significant Accounting Policies, continued

Capital Assets

Capital assets 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. Estimated useful lives range from 3-15 years.

Leases

Leases are contracts that convey control of a right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.

Short-term Leases

For leases with a maximum term of 12-months or less at the commencement date of the lease, the Trust recognizes rental income or lease expense as amounts become due under the lease agreement.

The Trust as Lessee

Lease liabilities on the statement of net position represent the present value of payments expected to be made during the lease term. Lease payments are discounted to present value using the rate implicit in the lease, when it can be readily determined, or the Trust's incremental borrowing rate at the commencement of the lease. In subsequent years, amortization of the discount is included in interest expense in the statement of revenues, expense and changes in net position.

Variable payments based on future performance of the Trust, usage of the underlying asset or criteria other than an index or rate are not included in the measurement of the lease liability. Those variable payments are recognized as lease expense in the period in which the obligation for those payments is incurred.

At commencement of the lease, a right-to-use asset is recorded on the statement of net position in an amount equal to the corresponding lease liability plus lease payments paid by the Trust at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term. The right-to-use asset also includes any initial direct costs that are necessary to place the leased asset into service. The right to use asset is amortized over the shorter of the lease term or the useful life of the right-to-use asset.

Subsequent to the commencement of the lease, the lease liability and right-to-use asset are remeasured if certain criteria are met.

2. Summary of Significant Accounting Policies, continued

Subscription-Based Information Technology Arrangements (SBITA)

SBITAs are contracts that convey the control of the right to use another party's information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

Short-term SBITAs

For SBITAs with a maximum term of 12-months or less at the commencement date of the agreement KLC recognizes as an outflow of resources as amounts become due under the agreement.

SBITA Right-to-Use Assets and Liabilities

SBITA liability on the statement of net position represents the present value of payments expected to be made during the during the subscription term. Subscription payments are discounted to present value using the interest rate the SBITA vendor charges the Trust or the Trust's incremental borrowing rate if the SBITA vendor's interest rate is not readily determinable. In subsequent years, amortization of the discount is included in interest expense in the statement of revenues, expenses and changes in net position.

Variable payments based on future performance of the Trust, usage of the underlying asset or criteria other than an index or rate are not included in the measurement of the SBITA liability. Those variable payments are recognized in the period in which the obligation for those payments is incurred.

At commencement of the SBITA, a right-to-use subscription asset is recorded on the statement of net position in an amount equal to the corresponding SBITA liability plus payments paid to the SBITA vendor by the Trust at or before the commencement of the subscription term, less any incentives received by the Trust from the SBITA vendor at or before the commencement of the subscription term. The right-to-use subscription asset also includes any capitalizable implementation costs that are necessary to place the right-to-use subscription asset into service. The right-to-use subscription asset is amortized over the shorter of the subscription term or the useful life of the right-to-use subscription asset.

Subsequent to the commencement of the SBITA, the SBITA liability and right-to-use subscription asset are re-measured if certain criteria are met.

2. Summary of Significant Accounting Policies, continued

Premium Revenue

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

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 the year ended June 30, 2023. Discounting reduced the liability by $6,241,230 as of June 30, 2023. The effect of discounting on the provision for losses and loss adjustment expenses was an increase of $603,018 in the year ended June 30, 2023.

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, 2023 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 the year ended June 30, 2023.

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 October 18, 2023, the date that the financial statements were available to be issued.

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, 2023 are as follows:

Deposits and investments classified as cash and cash equivalents:	
Cash and cash equivalents	$ 966,130
Money market mutual funds and uninvested cash	7,529,902
	8,496,032
Investments classified as investment securities:	
Certificates of deposit	6,606,634
Corporate bonds	3,414,830
Municipal bonds	17,902,977
U.S. government agency obligations	5,516,650
Equity securities	13,064,815
Equity mutual funds	11,032,670
	57,538,576
Total deposits and investments	$ 66,034,608

As of June 30, 2023, the Trust had the following investment maturities in years:

	Less than 1	1-5	6-10	More than 10
Certificates of deposit	$ 1,472,304	$ 5,134,330	$ -	$ -
Corporate bonds	-	3,136,668	278,162	-
Municipal bonds	1,655,936	9,685,595	4,806,446	1,755,000
U.S. government agency obligations	-	4,681,960	525,685	309,005
Total maturities	$ 3,128,240	$ 22,638,553	$ 5,610,293	$ 2,064,005

Net investment income is comprised of the following for the year ended June 30, 2023:

Interest and dividend income	$ 1,700,755
Net realized losses on sales of securities	(598,822)
Unrealized gains on securities, net	2,816,393
	$ 3,918,326

3. Deposits and Investments, continued

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 fair value. All of the Trust's other investments are actively traded. All investments are categorized as Level 1 in the fair value hierarchy.

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 25% of the total market value of the portfolio at the time of purchase and that the bond has a minimum rating of BBB.

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 50% of the total market value shall be held in cash, cash equivalents, and fixed income. Also, a minimum of 5% 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 the Commonwealth of Kentucky or its agencies with a minimum rating of BBB by any NRSRO.

3. Deposits and Investments, continued

Credit Risk, continued

Furthermore, the Trust may also invest in obligations with a minimum NRSRO rating of BBB issued by any state or any of its agencies, counties, municipalities, districts, political subdivisions, or other legal authorities within the United States of America, except that no less than fifty percent (50%) of the investments made under this provision must be in obligations issued by the Commonwealth of Kentucky, its agencies, or a county, city, district, municipality, political subdivision, or other legal authority within the Commonwealth of Kentucky. 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.

As of June 30, 2023, 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 BAA1. The Trust also invested in money market funds that were not rated.

Concentration of Credit Risk

As of June 30, 2023, the Trust held no debt and equity securities in excess of 5% of the Trust's total investments.

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. Capital Assets

Capital asset activity for the year ended June 30, 2023 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, being depreciated:				
Furniture and fixtures	**9,353**	**-**	**-**	**9,353**
Computer equipment	**5,404**	**-**	**-**	**5,404**
Software	**187,923**	**-**	**-**	**187,923**
Total capital assets, being depreciated	**202,680**	**-**	**-**	**202,680**
Accumulated depreciation	**(202,680)**	**-**	**-**	**(202,680)**
Net capital assets, being depreciated	**-**	**-**	**-**	**-**
Leased assets, being amortized:				
Right-of-use assets	**$ 15,233**	**$ -**	**$ -**	**$ 15,233**
Accumulated amortization	**(4,853)**	**(3,923)**	**-**	**(8,776)**
Net leased assets, being amortized	**10,380**	**(3,923)**	**-**	**6,457**
SBITAs*, being amortized:				
SBITAs**	**21,665**	**965**	**-**	**22,630**
Accumulated amortization	**-**	**(11,316)**	**-**	**(11,316)**
Net SBITAs, being amortized	**21,665**	**(10,351)**	**-**	**11,314**
Net capital assets	**$ 32,045**	**$ (14,274)**	**$ -**	**$ 17,771**

* New categories for SBITAs and the related accumulated amounts were added as a result of GASB 96 implementation

** The SBITAs category beginning balance was restated as a result of GASB 96 implementation

5. Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2023 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
Leases payable	**$ 10,529**	**$ -**	**$ (5,936)**	**$ 4,593**	**$ 4,038**
SBITA liability^	**21,665**	**965**	**(11,145)**	**11,485**	**11,485**
	$ 32,194	**$ 965**	**$ (17,081)**	**$ 16,078**	**$ 15,523**

^ The SBITA liability category beginning balance was restated as a result of GASB 96 implementation

5. Long-Term Liabilities, continued

Leases Payable

The Trust has entered into multiple lease agreements involving furniture and fixtures maturing at various dates through September 2025.

SBITA Liability

The Trust has committed to SBITAs for cloud-based computing and collaboration products, information technology and cybersecurity services maturing at various dates through June 2024.

The following is a schedule of the required future principal payments on the leases payable and SBITA liability, as well as interest:

Year ending June 30,	Leases Payable	SBITA Liability	Interest	Total
2024	$ 4,038	$ 11,485	$ 257	$ 15,780
2025	442	-	11	453
2026	113	-	1	114
	$ 4,593	$ 11,485	$ 269	$ 16,347

6. Excess Insurance

For the year ended June 30, 2023, 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 $1,500,000 (retention). The Trust must self-insure up to the retention per occurrence limits. For 2023, employer's liability loss limitations were $4,000,000 (retention of $1,500,000 plus $2,500,000 of excess insurance). For the year ended June 30, 2023, the Trust purchased specific excess insurance coverage from NLC Mutual Insurance Company for the excess layer of insurance only to cover 50% of $500,000 in loss in excess of $1,000,000 (retention). The Trust must self-insure up to retention limits per occurrence.

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 year ended June 30, 2023 were $1,340,428. Additional recoveries accrued on paid claims during the year ended June 30, 2023 were $992,040. 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 $12,856,591 in the year ended June 30, 2023.

7. Security Deposit

To satisfy requirements of the Department, the Trust maintains a security deposit account held under safekeeping with a bank in the amount of approximately $4,700,000 as of June 30, 2023.

8. Related Party Transactions

The following are related entities of the Trust:

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 Insurance Services Association (KLCIS)
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 Local Government Health Trust (KLGHT)

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 $2,557,470 for the year ended June 30, 2023.

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 $331,958 for the year ended June 30, 2023.

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 statement of net assets consist of the following as of June 30, 2023:

KLC accounts receivable	$ 166,140
KLCIS accounts payable	(1,819,719)
KLCIA accounts receivable	204
Net payable to related entities	$ (1,653,375)

9. Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses for the year ended June 30, 2023 is summarized as follows:

Net unpaid losses and loss adjustment expenses, beginning of year	**$ 33,780,299**
Incurred losses and loss adjustment expenses:	
Provision for insured events of the current year	**10,200,000**
Decrease in provision for insured events of prior years	**(2,126,982)**
Total incurred losses and loss adjustment expenses	**8,073,018**
Payments:	
Losses and loss adjustment expenses attributable to insured events of the current year	**2,175,450**
Losses and loss adjustment expenses attributable to insured events of prior years	**6,504,115**
Total payments	**8,679,565**
Net unpaid losses and loss adjustment expenses, end of year	**$ 33,173,752**

A decrease in the provision for insured events of prior years signifies that the Trust expects lower than anticipated ultimate losses in the final disposition of claims.

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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 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 (*Government Auditing Standards*), the financial statements of Kentucky League of Cities Workers' Compensation Trust (the Trust), which comprise the statement of net position as of June 30, 2023, the related statements 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 18, 2023.

Report on 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) as a basis for designing 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 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 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 or significant deficiencies may exist that have not been identified.

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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

Lexington, Kentucky
October 18, 2023

KENTUCKY LEAGUE OF CITIES WORKERS' COMPENSATION TRUST
Claims Development Information
Years ended June 30, 2014 through 2023

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

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
(1)	Earned premium revenue and net investment income:										
	Earned	$ 15,587,040	$ 13,442,044	$ 14,792,894	$ 14,211,303	$ 15,341,744	$ 16,498,198	$ 15,774,325	$ 21,543,662	$ 8,690,946	$ 18,351,091
	Ceded	881,546	880,281	851,810	1,168,123	1,217,706	1,041,508	1,116,392	1,085,175	1,200,570	1,340,428
	Net earned	14,705,494	12,561,763	13,941,084	13,043,180	14,124,038	15,456,690	14,657,933	20,458,487	7,490,376	17,010,663
(2)	Unallocated expenses	4,113,508	3,311,946	3,180,640	3,158,843	3,237,164	3,399,535	3,857,208	3,727,388	3,996,335	4,592,387
(3)	Estimated incurred claims and expenses, end of policy year:										
	Incurred	11,157,746	13,307,585	10,285,000	9,782,000	10,024,000	10,518,000	8,640,000	9,931,000	7,967,000	10,266,229
	Ceded	237,746	551,585	-	-	-	-	-	-	-	66,229
	Net incurred	10,920,000	12,756,000	10,285,000	9,782,000	10,024,000	10,518,000	8,640,000	9,931,000	7,967,000	10,200,000
(4)	Net paid (cumulative) as of:										
	End of policy year	2,663,585	3,458,053	2,195,901	2,257,198	1,979,853	2,498,948	2,033,070	2,114,981	1,843,210	2,175,450
	One year later	5,318,318	6,577,293	4,287,792	4,743,216	4,125,253	4,460,588	3,944,415	3,752,107	3,649,652	
	Two years later	7,558,252	8,507,865	5,333,555	6,270,521	6,247,661	5,747,072	5,213,230	4,729,226		
	Three years later	8,966,855	9,305,850	5,703,226	7,047,369	6,709,011	6,460,994	6,997,616			
	Four years later	9,379,836	9,612,115	6,064,651	7,350,029	7,109,120	6,796,942				
	Five years later	9,638,012	9,755,346	6,354,627	7,709,120	7,395,229					
	Six years later	9,752,998	9,896,550	6,446,188	8,023,443						
	Seven years later	9,914,540	10,000,805	6,521,530							
	Eight years later	10,215,171	10,104,166								
	Nine years later	10,410,587									
(5)	Reestimated ceded claims and expenses	44,390	413,863	-	458,739	2,160,876	-	-	-	-	66,229
(6)	Reestimated net incurred claims and expenses:										
	End of policy year	10,920,000	12,756,000	10,285,000	9,782,000	10,024,000	10,518,000	8,640,000	9,931,000	7,967,000	10,200,000
	One year later	11,313,000	13,701,000	9,517,000	10,849,000	11,338,000	9,965,000	9,205,000	8,538,000	7,700,000	
	Two years later	12,343,000	13,643,000	9,099,000	10,345,000	11,333,000	9,248,000	9,265,000	8,285,000		
	Three years later	13,117,000	12,650,000	8,688,000	10,528,000	11,300,000	8,889,000	8,892,000			
	Four years later	12,443,000	11,893,000	8,397,000	10,099,000	10,230,000	8,558,000				
	Five years later	12,487,437	11,755,000	8,068,000	9,791,000	10,000,000					
	Six years later	12,121,294	11,566,000	7,717,000	9,930,000						
	Seven years later	12,334,784	11,367,000	7,590,000							
	Eight years later	11,984,480	11,200,000								
	Nine years later	11,847,923									
(7)	Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	927,923	(1,556,000)	(2,695,000)	148,000	(24,000)	(1,960,000)	252,000	(1,646,000)	(267,000)	-

See report of independent auditors.