

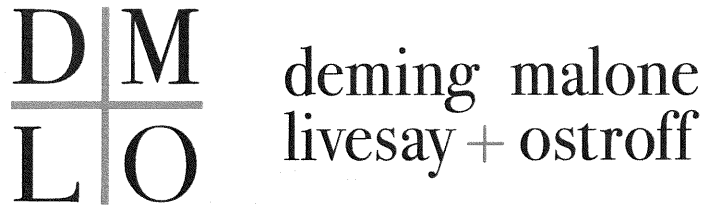
**KENTUCKY ASSOCIATION OF COUNTIES -
WORKERS COMPENSATION FUND**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2021 and 2020

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Independent Auditors' Report

To the Board of Trustees
Kentucky Association of Counties - Workers Compensation Fund
Frankfort, Kentucky

We have audited the accompanying financial statements of Kentucky Association of Counties-Workers Compensation Fund, which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of revenues, expenses and changes in members' equity, 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 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.

Auditors' 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. Those standards require that we plan and perform the audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Association of Counties - Workers Compensation Fund as of June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deming, Malone, Linsay & Petroff

Louisville, Kentucky
October 27, 2021

**KENTUCKY ASSOCIATION OF COUNTIES -
WORKERS COMPENSATION FUND**

BALANCE SHEETS
June 30, 2021 and 2020

Assets	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 13,680,476	\$ 17,655,415
Investments	109,256,834	93,836,189
Investment - County Reinsurance, Limited	242,211	242,211
Member premiums receivable, less allowance for doubtful accounts of \$50,000 in 2021 and 2020	22,023,022	21,688,148
Accrued interest receivable	249,948	289,913
Other	<u>230,597</u>	<u>434,221</u>
Total assets	<u><u>\$ 145,683,088</u></u>	<u><u>\$ 134,146,097</u></u>
 Liabilities and Members' Equity		
Estimated liability for future claims, net of estimated recoveries:		
Reported claims		
Claims incurred but not reported	<u>63,030,000</u>	<u>64,772,000</u>
Unallocated loss adjustment expenses	478,000	405,000
Dividends payable	2,000,000	
Return premiums due to members	1,452,547	937,614
Deferred revenue	21,227,624	20,591,087
Deferred special fund tax	1,491,157	1,320,588
Accounts payable	<u>208,001</u>	<u>349,161</u>
Total liabilities	89,887,329	88,375,450
Members' Equity	<u>55,795,759</u>	<u>45,770,647</u>
Total liabilities and members' equity	<u><u>\$ 145,683,088</u></u>	<u><u>\$ 134,146,097</u></u>

See Notes to Financial Statements.

**KENTUCKY ASSOCIATION OF COUNTIES -
WORKERS COMPENSATION FUND**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN MEMBERS' EQUITY**

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues		
Member premiums	\$ 20,029,549	\$ 21,677,186
Special fund tax	1,298,314	1,387,615
Investment income	2,200,763	2,778,530
Realized and unrealized gain on investments	<u>10,135,327</u>	<u>2,440,631</u>
Total revenues	<u>33,663,953</u>	<u>28,283,962</u>
Expenses		
Claims expense, net of recoveries		
Special fund tax		
Reinsurance premiums		
Administration and marketing		
Professional fees		
Management expense	<u> </u>	<u> </u>
Total expenses	<u>21,638,841</u>	<u>23,765,141</u>
Excess of revenues over expenses before member dividends	12,025,112	4,518,821
(Dividends to members) return of excess dividends	<u>(2,000,000)</u>	<u>9,326</u>
Increase in members' equity	10,025,112	4,528,147
Members' equity, beginning of year	<u>45,770,647</u>	<u>41,242,500</u>
Members' equity, end of year	<u>\$ 55,795,759</u>	<u>\$ 45,770,647</u>

See Notes to Financial Statements.

**KENTUCKY ASSOCIATION OF COUNTIES -
WORKERS COMPENSATION FUND**

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Cash received from member premiums		
Reinsurance and other recoveries collected		
Cash paid to suppliers		
Claims paid		
Investment income received		
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>1,310,379</u>	<u>3,667,308</u>
Cash Flows from Investing Activities		
Purchase of investments	(52,193,534)	(42,817,174)
Proceeds from sale and maturities of investments	<u>46,908,216</u>	<u>44,949,124</u>
	<u> </u>	<u> </u>
Net cash (used in) provided by investing activities	<u>(5,285,318)</u>	<u>2,131,950</u>
Cash Flows from Financing Activities		
Dividends paid to members	<u> </u>	<u>(2,990,674)</u>
Net (decrease) increase in cash and cash equivalents	(3,974,939)	2,808,584
Cash and cash equivalents at beginning of year	<u>17,655,415</u>	<u>14,846,831</u>
Cash and cash equivalents at end of year	<u>\$ 13,680,476</u>	<u>\$ 17,655,415</u>

See Notes to Financial Statements.

	<u>2021</u>	<u>2020</u>
Reconciliation of Excess of Revenues over Expenses to Net Cash Provided by Operating Activities		
Excess of revenues over expenses	<u>\$ 12,025,112</u>	<u>\$ 4,518,821</u>
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Realized and unrealized gain on investments	(10,135,327)	(2,440,631)
Changes in assets and liabilities:		
Decrease (increase) in:		
Member premiums receivable	(334,874)	1,391,602
Accrued interest receivable	39,965	94,325
Other	203,624	(235,966)
Increase (decrease) in:		
Estimated liability for future claims	(1,742,000)	822,000
Unallocated loss adjustment expenses	73,000	131,000
Return premiums due to members	514,933	34,187
Deferred revenue	807,106	(775,705)
Accounts payable	<u>(141,160)</u>	<u>127,675</u>
Total adjustments	<u>(10,714,733)</u>	<u>(851,513)</u>
Net cash provided by operating activities	<u>\$ 1,310,379</u>	<u>\$ 3,667,308</u>

**KENTUCKY ASSOCIATION OF COUNTIES -
WORKERS COMPENSATION FUND**

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business:

Kentucky Association of Counties - Workers Compensation Fund (Fund) was formed pursuant to Kentucky Revised Statutes 342.350(4) to develop, implement and administer a program of workers' compensation group self-insurance for the counties and political subdivisions of the Commonwealth of Kentucky who are members of Kentucky Association of Counties (KACo). The Fund operates solely for the mutual and exclusive benefit of its members. The Fund's participants consisted of 114 counties and 548 political subdivisions for 2021.

Summary of significant accounting policies:

This summary of significant accounting policies of the Fund is presented to assist in understanding the Fund's financial statements. The financial statements are representations of the Fund's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Method of accounting:

The financial statements of the Fund have been prepared on the accrual basis of accounting.

Cash and cash equivalents:

For purposes of the statement of cash flows, the Fund considers only cash and investments with an original maturity date of three months or less to be cash and cash equivalents.

Investments:

The Fund records all investments at fair value. Fair value is established based upon readily determinable market quotations for equity and debt securities. See Note 3 for discussion of fair value measurements.

NOTES TO FINANCIAL STATEMENTS

The Fund has significant investments in mutual funds, common stocks, government securities, and corporate bonds held by Central Bank & Trust Company. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Because of the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the balance sheets.

Allowance for doubtful accounts:

As of June 30, 2021 and 2020, substantially all of the member premiums receivable consisted of advance billings on the next year's premiums, which are also included in deferred revenue, and additional year-end payroll audit receivables. All member premiums receivable are reviewed by management and evaluated for collectability.

Management considers all amounts fully collectible and maintains an allowance for doubtful accounts of \$50,000 for any potential bad debts or subsequent premium adjustments.

Reinsurance:

The Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by the reinsurer.

Revenue and expense recognition:

Revenue derived from members' premiums is recognized over the period to which the premiums relate. Deferred revenue represents members' premiums billed but not yet earned. The Fund has the right to assess additional premiums at any time to cover the excess of claims incurred over previous premium assessments.

Fund expenses for reinsurance premiums, management and marketing fees and royalties are expensed ratably over the period of coverage.

NOTES TO FINANCIAL STATEMENTS

Income taxes:

The Fund is exempt from income taxes as provided under Section 115 of the Internal Revenue Code. However, income from certain activities not directly related to the Fund's tax-exempt purpose may be subject to taxation as unrelated business income. Management does not believe that the Fund has unrelated business income for the years ended June 30, 2021 and 2020.

As of June 30, 2021 and 2020, the Fund did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimate included in the financial statements is the estimated liability for future claims (see Note 5).

Legal, regulatory and geographic risk:

Legal and 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 Fund 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.

Geographic risk is the risk that catastrophic losses will occur in one concentrated area where the Fund does business. The Fund mitigates this risk by adhering to specified underwriting practices and by obtaining adequate reinsurance coverage.

NOTES TO FINANCIAL STATEMENTS

Subsequent events:

Subsequent events have been evaluated through October 27, 2021, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments are carried at fair value as determined based on quoted prices in active markets. Investments held in trust funds at Central Bank & Trust Company at June 30, 2021 consisted of the following:

	<u>Face Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mortgage-backed securities:			
Federal National Mortgage Association	\$ 6,214,688	\$ 6,371,910	\$ 6,489,541
Federal Farm Credit Bank	5,000,000	4,996,000	5,011,545
Federal Home Loan Bank	8,350,000	8,362,573	8,361,641
Federal Home Loan Mortgage	2,047,586	2,076,886	2,082,852
Fannie Mae Mortgage Backed Securities Pools	18,478,898	19,153,876	19,282,411
Government National Mortgage Association	369,179	381,193	392,621
Small Business Admin	338,698	339,389	344,662
Federal Home Loan Mortgage Gold Pool	<u>4,724,199</u>	<u>4,879,704</u>	<u>4,921,264</u>
	<u>45,523,248</u>	<u>46,561,531</u>	<u>46,886,537</u>
U.S. Treasury notes	<u>3,945,000</u>	<u>3,935,823</u>	<u>4,243,657</u>
Corporate bonds	<u>17,270,000</u>	<u>17,524,939</u>	<u>18,173,216</u>
Common stocks		<u>14,751,195</u>	<u>22,014,125</u>
Mutual funds		<u>12,731,184</u>	<u>17,939,299</u>
Total investments		<u>\$95,504,672</u>	<u>\$109,256,834</u>

NOTES TO FINANCIAL STATEMENTS

Investments held in trust funds at Central Bank & Trust Company at June 30, 2020 consisted of the following:

	<u>Face Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mortgage-backed securities:			
Federal National Mortgage Association	\$ 7,386,403	\$ 8,107,248	\$ 8,373,167
Federal Farm Credit Bank	1,250,000	1,247,750	1,292,538
Federal Home Loan Bank	2,500,000	2,536,202	2,545,824
Federal Home Loan Mortgage	3,019,493	3,051,130	3,072,910
Fannie Mae Mortgage Backed Securities Pools	3,965,043	4,051,170	4,218,078
Government National Mortgage Association	656,154	677,462	700,207
Small Business Admin	417,050	418,278	427,551
Federal Home Loan Mortgage Gold Pool	<u>1,236,285</u>	<u>1,283,777</u>	<u>1,319,051</u>
	<u>20,430,428</u>	<u>21,373,017</u>	<u>21,949,326</u>
U.S. Treasury notes	<u>16,095,000</u>	<u>16,144,512</u>	<u>17,089,869</u>
Corporate bonds	<u>19,020,500</u>	<u>18,698,074</u>	<u>19,711,129</u>
Common stocks		<u>17,000,470</u>	<u>20,281,794</u>
Mutual funds		<u>14,352,801</u>	<u>14,804,071</u>
Total investments		<u>\$87,568,874</u>	<u>\$93,836,189</u>

Maturity dates of investments at fair value are as follows at June 30, 2021:

Due within one year	\$ 4,300,840
Due after one year through five years	21,593,000
Due after five years through ten years	16,135,482
Due after ten years	27,274,088
Mutual funds	17,939,299
Common stocks	<u>22,014,125</u>
	<u>\$109,256,834</u>

NOTES TO FINANCIAL STATEMENTS

The Fund is an equity member of County Reinsurance, Limited (CRL), which is the Fund's reinsurance provider. The Fund's equity in CRL is based on capital contributions to CRL plus an allocation of CRL's earnings. Upon the termination of the Fund's membership in CRL, the Fund can request a repayment of its original capital contributions plus its portion of CRL's earnings during its membership, which is paid out over five years or sooner, granted at the discretion of CRL's Board of Directors. The investment in CRL is recorded at cost equal to the Fund's capital contributions to date of \$242,211. Under the cost method of recording the investment in CRL, the Fund's financial statements do not include approximately \$2,500,000 of the Fund's 3.20% share of CRL's members' equity as of June 30, 2021.

Note 3. Fair Value Measurements

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.
- Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active or inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. All assets have been valued using a market approach. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2021 and 2020.

NOTES TO FINANCIAL STATEMENTS

Corporate bonds, U.S. Treasury notes and mortgage-backed securities – valued at the quoted market prices for similar assets.

Common stock and mutual funds – valued at the unadjusted quoted market price as of the financial statement date.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth, by level, within the fair value hierarchy, the Fund's assets at fair value as of June 30, 2021 and 2020:

	June 30, 2021		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mortgage-backed securities		\$46,886,537	\$46,886,537
U.S. Treasury notes		4,243,657	4,243,657
Corporate bonds		18,173,216	18,173,216
Common stocks:			
Basic materials	\$ 712,205		712,205
Consumer goods	4,456,854		4,456,854
Financial	4,510,097		4,510,097
Healthcare	2,624,816		2,624,816
Industrial goods	1,874,414		1,874,414
Services	2,558,239		2,558,239
Technology	4,872,725		4,872,725
Utilities	404,776		404,776
Mutual funds:			
International	9,665,704		9,665,704
Mid cap fund	4,127,049		4,127,049
Small cap fund	2,280,797		2,280,797
Large cap fund	<u>1,865,749</u>		<u>1,865,749</u>
Total assets at fair value	<u>\$39,953,424</u>	<u>\$69,303,410</u>	<u>\$109,256,834</u>

NOTES TO FINANCIAL STATEMENTS

	<u>June 30, 2020</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mortgage-backed securities		\$21,949,326	\$21,949,326
U.S. Treasury notes		17,089,869	17,089,869
Corporate bonds		19,711,129	19,711,129
Common stocks:			
Basic materials	\$ 969,205		969,205
Consumer goods	3,141,164		3,141,164
Financial	4,986,062		4,986,062
Healthcare	2,684,818		2,684,818
Industrial goods	873,156		873,156
Services	2,278,807		2,278,807
Technology	4,765,407		4,765,407
Utilities	583,175		583,175
Mutual funds:			
International	6,950,511		6,950,511
Mid cap fund	4,153,993		4,153,993
Small cap fund	1,617,266		1,617,266
Large cap fund	<u>2,082,301</u>		<u>2,082,301</u>
 Total assets at fair value	 <u>\$35,085,865</u>	 <u>\$58,750,324</u>	 <u>\$93,836,189</u>

Note 4. Other Assets

Other assets consist of the following:

	<u>2021</u>	<u>2020</u>
Prepaid administrative fees	\$230,597	\$342,754
Prepaid special fund tax	<u> </u>	<u>91,467</u>
	<u>\$230,597</u>	<u>\$434,221</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Estimated Unpaid Claims Liabilities

Under Kentucky Law, the Fund is required to pay all valid claims against its members.

The estimated liability for future claims, net of estimated recoveries for reinsurance, deductibles and subrogation, was determined by Fund management as a result of consultation with the Fund's actuary, Oliver Wyman Actuarial Consulting, Inc. for the years ended June 30, 2021 and 2020.

This estimate is based upon various factors such as loss control efforts, claim trends and historical claims information. To the extent that claims information varies from the estimate, the statements of revenues, expenses and changes in members' equity reflect adjustments in the year they occur.

For both of the years ended June 30, 2021 and 2020, the liability was discounted 0%, based upon an estimate of the Fund's yield on its investments and expected claims patterns as developed by the actuary. The loss payment pattern used could vary significantly from actual, which would have a direct effect on the liability for estimated claims. The liability, without consideration for the time value of money, for 2021 and 2020 was approximately \$63,000,000 and \$64,800,000, respectively.

The Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities, net of recoveries, for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Unpaid claims and claim adjustment expenses at beginning of year		
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year and increases in provision for insured events of prior years, net of recoveries		
Payments:		
Claim and claim adjustment expenses paid attributable to insured events of current and prior years, net of recoveries collected		
Unpaid claims and claim adjustment expenses at end of year	<u>\$63,030,000</u>	<u>\$64,772,000</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Unallocated Loss Adjustment Expenses

An estimated liability for future expenses of handling prior year claims has been determined by management and the Fund's actuary, as of June 30, 2021 and 2020, and recorded as unallocated loss adjustment expenses.

Note 7. Compensating Cash and Investment Balances

Commonwealth of Kentucky, Department of Insurance, requires the Fund to maintain compensating cash and investment balances of at least ten (10) percent of outstanding future claims reserves as of the beginning of the policy year. The compensating balance for the years ended June 30, 2021 and 2020 of approximately \$6,400,000 and \$6,500,000, respectively, are held by Central Bank & Trust Company.

Note 8. Concentration of Credit Risk

The Fund maintains its cash accounts at a bank in Kentucky. Accounts at the bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2021, the uninsured cash balances totaled approximately \$13,410,000.

Note 9. Related Party Transactions

The Fund is under a Program Administration Agreement with KACo in which the Fund reimburses KACo for certain management and administrative expenses. Total fees for the years ended June 30, 2021 and 2020 were \$1,389,034 and \$1,395,319, respectively. As of June 30, 2021 and 2020, the Fund had prepaid administrative fees of \$230,597 and \$342,754, respectively.

The Fund is under a Program Administration Agreement with KACo in which the Fund pays KACo for certain management services. The fee is based on 3% of earned premiums collected. For the years ended June 30, 2021 and 2020, the agreement included a base management fee of \$250,000 in addition to the 3% of earned premiums collected. Total fees for the years ended June 30, 2021 and 2020 were \$893,917 and \$895,664, respectively. The Fund has a payable of \$25,826 for the management fee at June 30, 2021.

NOTES TO FINANCIAL STATEMENTS

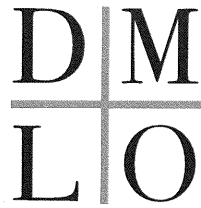
The Fund has a licensing agreement with KACo that requires the Fund to pay a royalty to KACo in return for the use of KACo's name and logo. For each of the years ended June 30, 2021 and 2020, the royalty was a fixed amount of \$1,000.

KACo established the Kentucky Association of Counties Program Guaranty Fund. The purpose of the Guaranty Fund is to make available, on an as needed basis, financial support to the various programs sponsored by and operating under service agreements with KACo, which includes the Fund. The Guaranty Fund receives contributions from KACo and certain of its programs. The Fund did not make any contributions to the Guaranty Fund for each of the years ended June 30, 2021 and 2020.

KACo established the KACo Finance Corporation. The purpose of the Finance Corporation is to create a statewide bond pool system to allow counties and eligible subdivisions to issue bonds carrying an AA rating. As of June 30, 2021 and 2020, the Fund has purchased \$1,040,000 of bonds in the KACo Finance Corporation, which is held in trust with Central Bank & Trust Company.

Note 10. Contingency

Management is currently evaluating the ongoing impact of the COVID-19 pandemic on the Fund and has concluded that while it is reasonably possible that the pandemic could have a negative impact on the Fund's financial position and/or results of operations, the specific impact is not readily determinable as of the date of the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



deming malone
livesay + ostroff

Independent Auditors' Report on Supplementary Information

To the Board of Trustees
Kentucky Association of Counties - Workers Compensation Fund
Frankfort, Kentucky

We have audited the financial statements of Kentucky Association of Counties – Workers Compensation Fund as of and for the years ended June 30, 2021 and 2020, and our report thereon dated October 27, 2021, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The claims development information on page 18, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
October 27, 2021

**KENTUCKY ASSOCIATION OF COUNTIES -
WORKERS COMPENSATION FUND
CLAIMS DEVELOPMENT INFORMATION
Fiscal and Policy Year Ended (In Thousands of Dollars)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
1. Premiums and investment revenue:										
Earned	\$21,300	\$21,187	\$26,654	\$27,247	\$26,348	\$25,980	\$26,059	\$25,924	\$22,882	\$21,700
Ceded	1,300	1,397	1,155	1,088	1,056	1,078	(251)	1,309	1,276	1,365
Net earned	20,000	19,790	25,500	26,158	25,292	24,902	26,311	24,615	21,606	20,335
2. Unallocated expenses	5,594	5,946	5,962	6,012	6,018	6,359	6,411	6,386	6,165	6,319
3. Estimated losses and expenses, end of policy year:										
Incurred	17,038	17,377	15,710	15,696	16,982	17,014	15,265	20,557	16,090	16,580
Ceded			(102)		(37)			(3,166)		
Net Incurred	17,038	17,377	15,608	15,696	16,945	17,014	15,265	17,391	16,090	16,580
4. Net paid (cumulative) as of:										
End of policy year	3,666	4,163	3,256	3,714	3,539	3,559	3,379	5,618	3,723	4,062
One year later	6,916	7,595	6,239	6,779	6,796	6,123	6,896	9,533	6,529	
Two years later	8,432	9,678	7,749	8,143	8,849	7,650	8,805	12,841		
Three years later	9,436	11,500	8,573	8,843	10,375	8,787	9,941			
Four years later	10,152	12,563	9,182	9,286	11,303	9,492				
Five years later	10,632	13,172	9,584	9,787	11,905					
Six years later	11,013	13,653	10,082	10,052						
Seven years later	11,455	14,123	10,465							
Eight years later	11,780	14,571								
Nine years later	12,005									
* 5. Reestimated ceded losses and expenses			102		37			3,166		
6. Reestimated net incurred losses and expenses:										
End of policy year	17,038	17,377	15,608	15,696	16,945	17,014	15,265	17,391	16,090	16,580
One year later	15,868	17,475	13,584	15,357	16,833	15,279	14,773	18,737	13,925	
Two years later	15,340	17,737	14,303	15,182	15,900	13,010	14,679	18,804		
Three years later	14,259	18,633	14,400	13,850	15,228	12,820	14,485			
Four years later	14,881	18,933	12,966	12,708	15,537	12,331				
Five years later	14,807	18,096	12,834	12,270	15,859					
Six years later	14,320	17,878	12,760	11,995						
Seven years later	14,417	17,984	12,949							
Eight years later	14,006	17,743								
Nine years later	13,915									
7. Increase (decrease) in estimated net incurred losses and expenses from end of accident year	(3,123)	366	(2,659)	(3,701)	(1,086)	(4,683)	(780)	1,413	(2,164)	

* Includes paid loss and ALAE plus nominal case reserves excess of retention (does not include a provision for IBNR).