

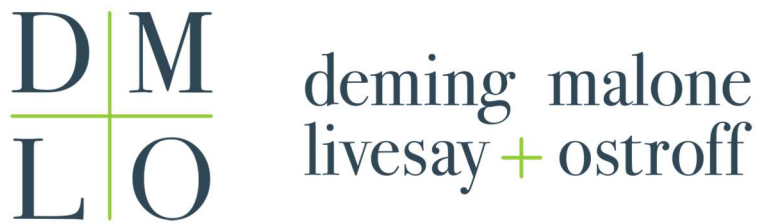
**KENTUCKY ASSOCIATION OF COUNTIES -
WORKERS COMPENSATION FUND**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2022 and 2021

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Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of Kentucky Association of Counties – Workers Compensation Fund, which comprise the balance sheets as of June 30, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 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.

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 Fund's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted 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 generally accepted 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 Fund'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 Fund'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.

Deming, Malone, Linsay & Petroff

Louisville, Kentucky
October 26, 2022

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

BALANCE SHEETS

June 30, 2022 and 2021

Assets	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 11,582,231	\$ 13,680,476
Investments	96,728,602	109,256,834
Investment - County Reinsurance, Limited	242,211	242,211
Member premiums receivable, less allowance for doubtful accounts of \$50,000 in 2022 and 2021	24,425,456	22,023,022
Accrued interest receivable	270,955	249,948
Other	<u>185,139</u>	<u>230,597</u>
Total assets	<u>\$ 133,434,594</u>	<u>\$ 145,683,088</u>
 Liabilities and Members' Equity		
Estimated liability for future claims, net of estimated recoveries:		
Reported claims		
Claims incurred but not reported	<u>66,027,000</u>	<u>63,030,000</u>
Unallocated loss adjustment expenses	618,000	478,000
Dividends payable	4,000,000	2,000,000
Return premiums due to members	719,717	1,452,547
Deferred revenue	23,037,774	21,227,624
Deferred special fund tax	1,600,366	1,491,157
Accounts payable	<u>249,729</u>	<u>208,001</u>
Total liabilities	96,252,586	89,887,329
Members' Equity	<u>37,182,008</u>	<u>55,795,759</u>
Total liabilities and members' equity	<u>\$ 133,434,594</u>	<u>\$ 145,683,088</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues		
Member premiums	\$ 22,159,028	\$ 20,029,549
Special fund tax	1,563,717	1,298,314
Investment income	3,513,848	2,200,763
Realized and unrealized (loss) gain on investments	<u>(14,491,045)</u>	<u>10,135,327</u>
Total revenues	<u>12,745,548</u>	<u>33,663,953</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>27,359,299</u>	<u>21,638,841</u>
Excess (expenses) revenues before member dividends	(14,613,751)	12,025,112
Dividends to members	<u>(4,000,000)</u>	<u>(2,000,000)</u>
(Decrease) increase in members' equity	(18,613,751)	10,025,112
Members' equity, beginning of year	<u>55,795,759</u>	<u>45,770,647</u>
Members' equity, end of year	<u>\$ 37,182,008</u>	<u>\$ 55,795,759</u>

See Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Cash received from member premiums		
Cash paid to suppliers		
Claims paid		
Investment income received		
	<u>1,864,568</u>	<u>1,310,379</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Purchase of investments	(30,780,856)	(52,193,534)
Proceeds from sale and maturities of investments	<u>28,818,043</u>	<u>46,908,216</u>
	<u>(1,962,813)</u>	<u>(5,285,318)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities		
Dividends paid to members	<u>(2,000,000)</u>	
Net decrease in cash and cash equivalents	(2,098,245)	(3,974,939)
Cash and cash equivalents at beginning of year	<u>13,680,476</u>	<u>17,655,415</u>
Cash and cash equivalents at end of year	<u><u>\$ 11,582,231</u></u>	<u><u>\$ 13,680,476</u></u>

Supplemental Disclosure of Noncash Financing Activities

In January 2022, the Board of Trustees of the Fund declared a \$4,000,000 dividend for the policy year ended June 30, 2009, payable to its eligible members pursuant to the Fund's bylaws and all other applicable provisions. \$2,000,000 is to be paid during the year ending June 30, 2023 and \$2,000,000 is to be paid during the year ending June 30, 2024.

In January 2021, the Board of Trustees of the Fund declared a \$2,000,000 dividend for the policy year ended June 30, 2008, payable to its eligible members pursuant to the Fund's bylaws and all other applicable provisions and paid during the year ended June 30, 2022.

See Notes to Financial Statements.

	<u>2022</u>	<u>2021</u>
Reconciliation of Excess (Expenses) Revenues to Net Cash Provided by Operating Activities		
Excess (expenses) revenues	<u>\$ (14,613,751)</u>	<u>\$ 12,025,112</u>
Adjustments to reconcile excess of (expenses) revenues to net cash provided by operating activities:		
Realized and unrealized loss (gain) on investments	14,491,045	(10,135,327)
Changes in assets and liabilities:		
Decrease (increase) in:		
Member premiums receivable	(2,402,434)	(334,874)
Accrued interest receivable	(21,007)	39,965
Other	45,458	203,624
Increase (decrease) in:		
Estimated liability for future claims	2,997,000	(1,742,000)
Unallocated loss adjustment expenses	140,000	73,000
Return premiums due to members	(732,830)	514,933
Deferred revenue and special fund tax	1,919,359	807,106
Accounts payable	<u>41,728</u>	<u>(141,160)</u>
Total adjustments	<u>16,478,319</u>	<u>(10,714,733)</u>
Net cash provided by operating activities	<u>\$ 1,864,568</u>	<u>\$ 1,310,379</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 561 political subdivisions for 2022.

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 statements 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, 2022 and 2021, 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, 2022 and 2021.

As of June 30, 2022 and 2021, 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 26, 2022, 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, 2022 consisted of the following:

	<u>Face Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mortgage-backed securities:			
Federal National Mortgage Association	\$ 2,331,097	\$ 2,537,403	\$ 2,266,053
Federal Farm Credit Bank	1,500,000	1,500,000	1,387,640
Federal Home Loan Bank	6,500,000	6,508,502	6,005,320
Federal Home Loan Mortgage	1,695,211	1,713,946	1,541,296
Fannie Mae Mortgage Backed Securities Pools	20,669,312	19,656,375	17,992,154
Government National Mortgage Association	238,335	246,019	165,720
Federal Home Loan Mortgage Gold Pool	<u>7,554,431</u>	<u>6,408,858</u>	<u>5,828,310</u>
	<u>40,488,386</u>	<u>38,571,103</u>	<u>35,186,493</u>
U.S. Treasury notes	<u>14,020,000</u>	<u>13,992,549</u>	<u>13,525,417</u>
Corporate bonds	<u>16,110,000</u>	<u>16,424,937</u>	<u>15,455,568</u>
Common stocks		<u>14,622,762</u>	<u>17,613,134</u>
Mutual funds		<u>15,361,006</u>	<u>14,947,990</u>
Total investments		<u>\$98,972,357</u>	<u>\$96,728,602</u>

NOTES TO FINANCIAL STATEMENTS

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>

Maturity dates of investments at fair value are as follows at June 30, 2022:

Due within one year	\$ 5,396,726
Due after one year through five years	24,655,099
Due after five years through ten years	9,015,532
Due after ten years	25,100,121
Mutual funds	14,947,990
Common stocks	<u>17,613,134</u>
	<u>\$96,728,602</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 \$2,000,000 of the Fund's 3.07% share of CRL's members' equity as of June 30, 2022.

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, 2022 and 2021.

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, 2022 and 2021:

	<u>June 30, 2022</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mortgage-backed securities		\$35,186,493	\$35,186,493
U.S. Treasury notes		13,525,417	13,525,417
Corporate bonds		15,455,568	15,455,568
Common stocks:			
Basic materials	\$ 513,703		513,703
Consumer goods	4,564,653		4,564,653
Financial	1,871,585		1,871,585
Healthcare	3,163,475		3,163,475
Industrial goods	1,921,372		1,921,372
Services	1,437,200		1,437,200
Technology	3,414,938		3,414,938
Utilities	726,208		726,208
Mutual funds:			
International	7,580,353		7,580,353
Mid cap fund	2,969,518		2,969,518
Small cap fund	1,957,025		1,957,025
Alternatives	<u>2,441,094</u>		<u>2,441,094</u>
Total assets at fair value	<u>\$32,561,124</u>	<u>\$64,167,478</u>	<u>\$96,728,602</u>

NOTES TO FINANCIAL STATEMENTS

	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	404,775		404,775
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> </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>

Note 4. Other Assets

Other assets consist of the following:

	<u>2022</u>	<u>2021</u>
Prepaid administrative fees	<u>\$185,139</u>	<u>\$230,597</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, 2022 and 2021.

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, 2022 and 2021, 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 2022 and 2021 was approximately \$66,000,000 and \$63,000,000, 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, 2022 and 2021:

	<u>2022</u>	<u>2021</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>\$66,027,000</u>	<u>\$63,030,000</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, 2022 and 2021, 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, 2022 and 2021 of approximately \$6,700,000 and \$6,400,000, 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, 2022, the uninsured cash balances totaled approximately \$8,330,000.

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, 2022 and 2021 were \$1,457,389 and \$1,389,034, respectively. As of June 30, 2022 and 2021, the Fund had prepaid administrative fees of \$185,139 and \$230,597, respectively.

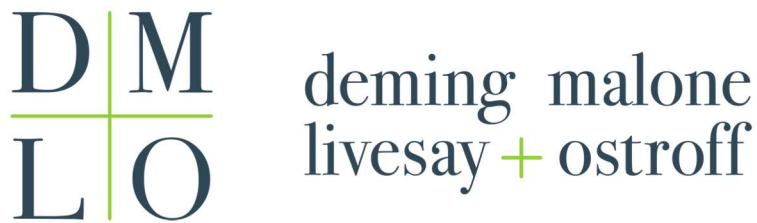
The Fund is under a Program Administration Agreement with KACo in which the Fund pays KACo for certain management services. The fee is based on 3% of earned premiums collected. For the years ended June 30, 2022 and 2021, the agreement included a base management fee of \$250,000 in addition to the 3% of earned premiums collected. Total fees for the years ended June 30, 2022 and 2021 were \$992,017 and \$893,917, respectively. The Fund had payables of \$23,867 and \$25,826 for the management fee at June 30, 2022 and 2021, respectively.

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, 2022 and 2021, 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, 2022 and 2021.

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, 2022 and 2021, the Fund has purchased \$1,040,000 of bonds in the KACo Finance Corporation, which is held in trust with Central Bank & Trust Company.



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, 2022 and 2021, and our report thereon dated October 26, 2022, 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 26, 2022

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

	<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>	<u>2022</u>
1. Premiums and investment revenue:										
Earned	\$21,187	\$26,654	\$27,247	\$26,348	\$25,980	\$26,059	\$25,924	\$22,882	\$21,700	\$22,599
Ceded	1,397	1,155	1,088	1,056	1,078	(251)	1,309	1,276	1,365	1,639
Net earned	19,790	25,500	26,158	25,292	24,902	26,311	24,615	21,606	20,335	20,960
2. Unallocated expenses	5,946	5,962	6,012	6,018	6,359	6,411	6,386	6,165	6,319	6,833
3. Estimated losses and expenses, end of policy year:										
Incurred	17,377	15,710	15,696	16,982	17,014	15,379	19,374	16,090	16,704	20,179
Ceded		(102)		(37)		(115)	(1,983)		(125)	
Net Incurred	17,377	15,608	15,696	16,945	17,014	15,265	17,391	16,090	16,580	20,179
4. Net paid (cumulative) as of:										
End of policy year	4,163	3,256	3,714	3,539	3,559	3,379	5,618	3,723	4,062	4,989
One year later	7,595	6,239	6,779	6,796	6,123	6,896	9,533	6,529	8,821	
Two years later	9,678	7,749	8,143	8,849	7,650	8,805	12,841	8,057		
Three years later	11,500	8,573	8,843	10,375	8,787	9,941	14,105			
Four years later	12,563	9,182	9,286	11,303	9,492	10,515				
Five years later	13,172	9,584	9,787	11,905	9,836					
Six years later	13,653	10,082	10,052	12,383						
Seven years later	14,123	10,465	10,253							
Eight years later	14,571	10,755								
Nine years later	14,913									
* 5. Reestimated ceded losses and expenses		102		37		115	1,983		125	
6. Reestimated net incurred losses and expenses:										
End of policy year	17,377	15,608	15,696	16,945	17,014	15,265	17,391	16,090	16,580	20,179
One year later	17,475	13,584	15,357	16,833	15,279	14,773	18,737	13,925	17,418	
Two years later	17,737	14,303	15,182	15,900	13,010	14,679	18,804	13,330		
Three years later	18,633	14,400	13,850	15,228	12,820	14,485	18,240			
Four years later	18,933	12,966	12,708	15,537	12,331	14,006				
Five years later	18,096	12,834	12,270	15,859	12,273					
Six years later	17,878	12,760	11,995	15,829						
Seven years later	17,984	12,949	11,725							
Eight years later	17,743	12,807								
Nine years later	17,689									
7. Increase (decrease) in estimated net incurred losses and expenses from end of accident year	312	(2,801)	(3,971)	(1,116)	(4,741)	(1,259)	849	(2,759)	839	

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