Kentucky FAIR Plan Reinsurance Association

Notice of Governing Committee Meeting

Pursuant to Article V.3, Articles of Association, Kentucky FAIR Plan Reinsurance Association, a Governing Committee Meeting will be held at 10:30 A.M. on Thursday, June 4, 2020 **via teleconference**.

Agenda:

1. Roll Call
2. Anti-Trust Preamble
3. Approval of Minutes
4. Election of Members of Governing Committee
5. Election of Officers
6. Auditor's Report and Financial Statement
7. Review of Investment Portfolio
8. Executive Director's Report
9. Other Business
10. Adjournment

If you are unable to participated in this meeting in person please consider providing

a proxy.

Sincerely,

Mark Hillis
Executive Director

Cc: Shawn Boggs, Kentucky Department of Insurance
Governing Committee Members

Kentucky FAIR Plan Reinsurance Association

Anti-trust Preamble

We are here to discuss and act on matters relating to the business of the Kentucky FAIR Plan not to discuss or pursue the business interests of our individual companies. We should proceed with caution and alertness towards the requirements and prohibitions of federal and state anti-trust laws. We should not engage in discussions, either at this meeting or in private conversations, of our individual companies' plans or contemplated activities. We should concern ourselves only with the business of the Kentucky FAIR Plan.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
GOVERNING COMMITTEE MEETING

A Governing Committee meeting was held at 10:30 AM on October 24, 2019 at 10605 Shelbyville Road, Louisville, Kentucky.

Those present:

Governing Committee:

Kristen Mellinger	(Chairperson)	Kentucky Farm Bureau Mut. Ins. Co.
John F. Reesor, J.D., CPA	(Vice Chair)	Lawyers Mutual Ins. Co. of KY
Rudy Schlich		Old Kentucky Insurance
Lisa Pierce	(By Phone)	Allstate
Steve Simkims	(By Phone)	State Farm Insurance Co.
Rick Caudill	(By Proxy, Rudy Schlich)	Travelers
Anna Etherington	(By Proxy, Kristen Mellinger)	Liberty Mutual

Kentucky Department of Insurance:

John Melvin	Kentucky Department of Insurance

Staff:

Stephen Mark Hillis	Executive Director/Sec. Treasurer
Melissa Chlon	Assistant Director / Plan Manager
Erin Lux	Assistant Plans Manager

Call to Order and Roll Call:

Ms. Mellinger called the meeting to order, asked Committee members and guests to introduce themselves and noted that a quorum was present. Mr. Caudill appointed Mr. Schlich as his proxy. Ms. Etherington appointed Ms. Mellinger as her proxy.

Antitrust Preamble:

Ms. Lux read the Antitrust Preamble.

Approval of Minutes:

The Committee reviewed minutes of the June 6, 2019 Governing Committee Meeting, August 21, 2019 Underwriting Audit Meeting, August 22, 2019 Claims Audit Meeting, September 17, 2019 Reinsurance and Equity Committee Meeting, September 17, 2019 Investment Committee Meeting which were distributed and included with the agenda. Mr. Schlich moved and Mr. Simkims seconded to approve the minutes and the motion passed unanimously.

Committee Reports:

Underwriting Audit Committee Report:

Ms. Lux presented the results of the audit conducted by the members of the Underwriting Committee on August 21, 2019 which indicated that no major deficiencies were identified. She further noted that underwriting files were thoroughly documented and well organized and that Underwriting decisions were made in accordance with the Underwriting manual rules and guidelines.

Ms. Pierce inquired about the sample size with concerns that additional files should be reviewed. A general discussion took place on the sample size as it relates to the book of business. Mr. Hillis noted that the industry provides four individuals who have been involved in auditing the Plan for many years, noting that he is confident the process and the results of the audit. A copy of the report is included in the minutes.

Claims Audit Committee Report:

Ms. Lux presented the results of the audit conducted by the members of the Claims Committee on August 22, 2019 and indicated that just under 15% of all claims files from 2018 - 2019 were reviewed. She reported that overall file adequacy was 97% and noted that claims management within the Plan was solid. A copy of the report is included in the minutes.

Reinsurance and Equity Committee Report:

Mr. Hillis discussed the makeup and purpose of the Reinsurance and Equity Committee. He advised that a meeting was held on September 17, 2019 for reviewing the reinsurance renewal and the Plan’s equity position. Mr. Hillis reminded the members that the purpose of purchasing a limited reinsurance layer is to protect members against the possibility of catastrophic events.

During the September 17, 2019 meeting, the Governing Committee Policy, Members Equity and Distributions to Members document was discussed and the committee agreed to continue with the position stated in the document.

Investment Committee Report:

Mr. Hillis reported on behalf of the Investment Committee and discussed the Investment Committee’s oversight of the investment portfolio held by Merrill Lynch as custodian. He indicated that Ms. William’s report commented on the excellent quality of the Plan’s investment assets that consist of high-rated municipal bonds and equity mutual funds. Ms. Williams also reviews the performance summaries of equity mutual funds and the credit rating/quality of bonds and reports her findings to the Investment Committee. Mr. Hillis thanked the committee for their in-depth review of the Plan’s financials.

Executive Directors Report:

Experience Report:

Ms. Chlon presented a Power Point Presentation and discussed the Plan's 2019 experience as of the end of the third quarter to include written premium, claims, loss and loss adjustment expense, new applications and operating expenses.

1. 1,119 applications have been received through September. The Plan estimates ending the year with 1,429 applications, a slight decline over 2018.
2. Written premium was $3,375,983 through September. The Plan estimates ending the year with approximately $4,306,818 in written premium. A decline of 14%.
3. The operating expense ratio continues to be favorable but is up slightly given the decline in written premium. The Plan will continue to experience an increase in the expense ratio due to the decline in written premium.
4. 264 claims have been received with limited to no CAT events resulting in significant losses to the Plan. The Plan estimates ending the year with approximately 327 claims.

Financial Report:

Ms. Chlon discussed the Plan's financial report as of the end of September 2019.

1. Cash flow as of the end of September was $2,488,898 which includes the Insured Cash Sweep and checking account at Republic Bank.
2. The Merrill Lynch Investment account balance was $18,625,603.
3. Ms. Chlon noted that the Plan has opened a checking account designated specifically to the members equity distribution that will be funded from the operational and investment accounts.

2020 Budget:

Mr. Hillis indicated the 2019 budget is on target as of the end of the third quarter and the Plan expect to be at or slightly under budget.

He noted that the budget was impacted by the continued increase in medical benefits costs. The 2020 health insurance rates are not available yet, however it was indicated by Director Melvin that the Plans current health carrier had filed, and received approval for a 12.4% increase for 2020. And he further noted that the Plan did not provide a traditional pension but continued to provide for a Defined Contribution Plan.

A budget in the amount of $1,627,764 was proposed for 2020. Following general discussion on budget center fluctuations, Mr. Schlich moved, Mr. Reesor seconded and the motion to approve the 2020 budget was unanimously approved.

Other Business:

Rate Review:

Mr. Hillis advised that the Plan's rates had been reviewed by AIPSO actuaries and the following proposals were submitted for review:

- Dwelling Fire: the actuaries recommended the adoption of the latest ISO loss cost filing and other changes that will have an overall effect of -6.6%.
- Homeowners: the actuaries recommended the adoption of the latest ISO loss cost filing and other changes that will have an overall effect of 6.1%.
- Commercial and Farm Property: the actuaries recommended the adoption of the latest ISO loss cost filing and other changes that will have an overall effect of -0.7%.

Mr. Hillis advised that Underwriting Committee and the Plan recommends that the rate filings not be accepted to keep the Plan from being price competitive with the standard market. Ms. Lux further noted that producers have advised multiple times that the Plan is cheaper than the standard market for some applicants. She further noted that the intent of the residual market is to not be price competitive.

General discussion took place as to what the market can absorb and noted that another carrier in Kentucky is successfully offering an ACV product. Mr. Reesor moved to not take the 2020 rate change. Mr. Schlich seconded, and the motion passed unanimously.

Members Equity Distribution:

Mr. Hillis advised that on 10/10/2019 he received the formal approval from the Commissioner to disburse up to $5 million. He noted that he is working with Steve Holley at Merrill Lynch to fund the Republic Bank account with funds coming from Merrill Lynch, ICS (Insured Sweep Account) and the operational account. The Plan staff is compiling the letters, checks, and disbursement statements to begin mailing on 12/2/2019.

General discussion was held around credit balances and the escheatment process. Mr. Hillis thanked his team, Mr. Melvin and the Department of Insurance, and the Governing Committee.

Building Ownership:

Mr. Hillis noted the decline in the residual markets, the Plan has put into place additional efficiencies (laptops, VOIP phone system, imaging solution, etc.) that allows employees to work remotely. With that, the organizations do not need the 10,000 square foot building. He indicated that there remains a Cost Sharing Agreement and a Lease which were both revised for 2019 when offered to the other Plans in the building.

There were three options reviewed by the Investment Committee using the building sale price as ~$1.7m and the purchase price of a smaller building estimated at ~$700k:

1. Stay as the building – The Plans expenses would continue to be ~$33k annually.
2. Sell the building and purchase a smaller building – This would allow the Plan to invest funds to used to purchase another building along with ~$7k annually. The FAIR Plan would receive rental income from the four other organizations at market value, per statutory accounting principles.
3. Sell the building and lease – The Plan's expenses would decrease to ~$19k annually and funds received from the building will be invested.

Mr. Hillis advised that Investment Committee and the Plan recommends placing the building located at 10605 Shelbyville Road up for sale within the next few months. He also recommended that a Facilities Committee be formed comprised of the Executive Director, Board Chair, and one other Governing Committee member. The Facilities Committee member will be charged with reviewing options to purchase or lease office space.

General discussion took place and it was agreed that the Facilities Committee will bring recommendations back to the full Governing Committee who will be involved in the decision to purchase or lease new office space.

Ms. Pierce moved to form the Facilities Committee as well as to place the building located at 10605 Shelbyville Road up for sale as soon as possible. Mr. Schlich seconded, and the motion passed unanimously.

Modifications:

The Underwriting Subcommittee recommended two modifications to the system.

1. Adding additional language to the frontend and backend of the application to confirm the producer was unable to secure coverage in the standard market. General discussion took place regarding the Plans authority to request proof of rejection from the standard market.
2. Three-year non-renewal for all policies insured through the Plan.
    a. Ms. Chlon advised that 2/3 of the Plan's book of business has had consecutive coverage with the Plan for more than 4 years.
    b. By non-renewing the policies eligible policyholders should transition back to the standard market. Applicants that need to be with the Plan may re-apply. New applications will process through the new system which includes more in-depth questions. Non-renewing will also decrease inspections ordered by the Underwriting Team.
    c. Changes to the Manual or Articles of the Association will be filed with the Kentucky Department of Insurance.

After general discussion it was agreed upon that the Plan would begin by taking a conservative approach to the proposed 3 year term. The Plan will perform additional work related to a questionnaire sent to the policyholder and producers requesting information supporting a renewal beyond three terms.

Ms. Mellinger moved to make changes to the application requiring producers to confirm no other markets exist for applicants. Mr. Schlich seconded, and the motion passed unanimously.

Ms. Mellinger moved to approve a questionnaire within the third term. Mr. Schlich seconded, and the motion passed unanimously.

Development will begin on both modifications in 2021.

Committee Assignments:

Ms. Chlon advised that updated committee assignments were included in the meeting materials.

Mr. Hillis advised that Kentucky National Insurance has advised that they have interest in participating in the FAIR Plans governance. He indicated that they had been involved in the past, and noted that having an engaged insurer replace another member would benefit the Plan.

PIPSO Report:

Ms. Chlon advised that in accordance with the Articles of Association the quarterly PIPSO report is provided to the Governing Committee and Department of Insurance. She asked for questions regarding the report and there were none.

Department of Insurance Comments:

Director Melvin was recognized by the Chair and thanked for his participation and involvement with the Plan. The Director shared some interesting technological developments coming out of WeatherCheck which is based in Louisville, KY as they received various awards at a meeting he had recently attended with a focus on efficiencies serving the industry and the consumers of the Commonwealth.

Next meetings:

The next meeting dates are set for June 4, 2020 and October 22, 2020.

Adjournment:

There being no other business, Mr. Schlich moved, Mr. Reesor seconded, and the committee agreed to adjourn the meeting.

Respectfully Submitted,

Stephen Mark Hillis
Secretary-Treasurer and Executive Director

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

PRODUCT AND FORMS COMMITTEE MEETING

Pursuant to notice, a meeting was held at 10:00 AM on April 13, 2020 via teleconference.

Present for the meeting:

Kristen Mellinger	Kentucky Farm Bureau
Rudy Schlich	Old Kentucky Insurance
Mark Hillis	Kentucky Insurance Plans
Melissa Chlon	Kentucky FAIR Plan
Erin Lux	Kentucky FAIR Plan

1. **Call to Order:**
Ms. Chlon called the meeting to order, asked Committee members to introduce themselves.

2. **Anti-Trust Preamble:**
Ms. Chlon reminded the committee that all members are bound by the anti-trust preamble.

3. **Approval of Minutes:**
Ms. Chlon confirmed that all Product and Forms Committee members had received a copy of the minutes of the April 10, 2019 meeting. Mr. Schlich made a motion to approve the minutes which was seconded by Ms. Mellinger and approved by unanimous consent.

4. **Report of the Plan Manager:**
Ms. Chlon reviewed the Product and Forms Charter and reviewed some of the core duties and responsibilities of the committee.

Ms. Chlon provided an update pertaining to policies written and written premium noting the following:

Current Products offered by the Plan:

- DP1 and DP2 – representing 80.09% of all the FAIR Plan policies
- HO2, HO4, HO6, HO8 – representing approximately 15.74%
- Commercial Fire – representing 2.61%
- Farm Property – representing 1.56%

She further noted that these products are reflected in the Articles of the Plan.

Ms. Chlon then shared that policies in force were approximately 6,605 at the end of 2019. She further noted that written premium continued to decline and was down 14% over 2018. Q1 2020 reflected 6,400 policies.

Ms. Chlon noted that the Plan had not received any inquiries over the past year from individuals seeking coverage which was not already offered by the Plan.

Mr. Hillis noted that there had been two policyholders who had reached out to the Kentucky Department of Insurance with regards to market changes related to COVID-19, further noting that the Plan had been able to address both of these with short term solutions. He indicated that he remains in communication with the Commissioner should the residual markets be needed. The full impact of COVID-19 on the market is unknown but there may be a shift over the next 6-12 months.

Mr. Schlich and Ms. Mellinger both indicated that at this time, there was nothing in the standard market which they were seeing which couldn't be written at this time.

5. <u>Other Business:</u>

Ms. Chlon asked the Committee if there was any additional business to discuss. Members of the Committee advised there was none. The committee was reminded of the upcoming Governing Committee meeting scheduled for June 4, 2020.

6. <u>Adjournment:</u>

There being no further business, Mr. Schlich made a motion to adjourn which was seconded by Ms. Mellinger. The meeting was adjourned by unanimous consent.

Respectfully submitted,

Melissa Chlon

Melissa Chlon
Assistant Director / Plan Manager

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
AUDIT COMMITTEE MEETING

Pursuant to notice, a meeting was held at 2:30 AM on April 13, 2020 via teleconference.

Present for the meeting:

Maureen Williams, CFA	Kentucky Farm Bureau
Carrie Schaaf	Kentucky Farm Bureau
Steve Simkims	State Farm Insurance
Mark Hillis	Kentucky Insurance Plans, Exec. Director
Melissa Chlon	Kentucky FAIR Plan, Asst. Director
Erin Lux	Kentucky FAIR Plan, Asst Plans Manager
Tina Faleide, CPA	Kentucky FAIR Plan, Acct. Manager

1. **Call to Order:**
   Mr. Hillis called the meeting to order and recognized that all members were present.

2. **Anti-Trust Preamble:**
   Ms. Faleide reminded the committee that all members are bound by the anti-trust preamble.

3. **Approval of Minutes:**
   Mr. Hillis confirmed that all Audit Committee members had received a copy of the minutes of the April 18, 2019 meeting. These had been approved by the full Governing Committee this past fall.

4. **Report of the Plan:**

   Ms. Faleide reviewed the audit findings and after general discussion, the committee agreed that the quality of the documentation produced by DMLO was of high standard. The committee further recognized that there were no disagreements with management during the audit.

   Ms. Faleide noted that Plan management has been pleased with the quality and attention provided by DMLO in conducting the audits and recommended that the committee agree to re-engage DMLO for services in 2021.

   After further discussion, Ms. Schaaf made a motion to re-engage DMLO for auditing services in 2021. Mr. Simkims seconded, and the motion carried.

   Next, the committee reviewed the Plan's intent to remain in compliance with 806 KAR 3:170 6(3) in rotation of the auditing firm's partner every 5 years.

5. **Other Business**

Building Update:

Mr. Hillis noted that under the current contract, with an anticipated close date of 4/22/2020. He also noted that with the given market, that may change.

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6. Adjournment:

There being no further business, Ms. Williams made a motion to adjourn the meeting. Mr. Simkims seconded, and the motion carried.

Respectfully Submitted,

Melissa Chlon
Assistant Director / Plan Manager

FAIR PLAN REINSURANCE ASSOCIATION
FINANCE AND INVESTMENT COMMITTEE MEETING

Pursuant to notice, a meeting was held at 3:00PM on April 13, 2020 via teleconference.

Present for the meeting:

Maureen Williams, CFA	Kentucky Farm Bureau Mutual Ins.
Carrie Schaaf	Kentucky Farm Bureau Mutual Ins.
Rudy Schlich	Old Kentucky Insurance
Lisa Pierce	Allstate Insurance Company
Mark Hillis	Kentucky Insurance Plans
Melissa Chlon	Kentucky FAIR Plan
Erin Lux	Kentucky FAIR Plan
Tina Faleide, CPA	Kentucky FAIR Plan
Steven L. Holley, CFM	Merrill Lynch

1. **Call to Order:**
   Mr. Hillis called the meeting to order and noted that a quorum was present.

2. **Anti-Trust Preamble:**
   Mr. Hillis reminded the committee that they are bound by the anti-trust preamble.

3. **Approval of Minutes:**
   Mr. Hillis noted that documents had been provided prior to the meeting. Minutes were approved by the full Governing Committee this past fall.

4. **Report of the Executive Director:**
   Mr. Hillis provided a report showing change in written premium, assets, liabilities and members equity. He further shared Loss, Expense and Combined Ratio results.

   The balance in the Republic Bank account reflected a total of $1,308,669 as of March 31, 2020. Due to the 2019 disbursement, the ICS (Insured Cash Sweep) account has a zero balance.

   Mr. Hillis provided an updated copy of the Building Sale noting that at this point, the buyer had not backed out due to market changes and there was still a scheduled closing on April 22, 2020.

   Mr. Hillis noted that under the current contract, the Plans could lease back the facility through September. But that the Facilities Committee which comprised of Kristen Mellinger and Rudy Schlich were working with the Plan on finding a new location.

   Mr. Hillis lead a general discussion about industry and market changes due to the current environment. The Plan has been in contact with the Kentucky Department of Insurance over the last few weeks to ensure the policyholder needs are met.

5. **Report to the Investment Custodian – Steve Holley:**

Mr. Holley presented a review of the investment assets including a discussion of the bond and mutual fund portfolios. He advised that the Plans bond ladder was good, as well as the individual bond ratings.

The Plans current holdings are 7.06% cash, 18.44% equity and 74.5% fixed assets.

A brief discussion took place relating to the volatility of the market and the potential impacts of the current economic and political news.

Mr. Holley reviewed the annual bond income of approximately $429,900 which averaged just over $35,000 monthly. He noted that he had spoken with Mr. Hillis in mid-March about re-starting the equity purchase program, and that they are now presenting this to the Investment Committee. After general discussion, the Committee fully supports restarting the monthly auto purchasing program. Monthly gains of around $35k will be placed into the purchasing program with 50% going to value funds and 50% blend funds.

6. **Investment Analysis – Carrie Schaaf:**

Ms. Schaaf discussed the bond and mutual funds analysis report that she had completed. She found no issues with the current funds.

Ms. Schaaf lead a general discussion around how often funds were reviewed and potentially swapped out for better preforming mutual funds. Mr. Holley indicated that this has been done in the past, with underperforming funds. Ms. Williams indicated same.

7. **Other Business:**

Mr. Hillis thanked Ms. Williams for her support over the years and wishes her well in her upcoming retirement.

Mr. Hillis advised that the next Governing Committee meeting is scheduled for 10:30 am on June 4th, 2020.

8. **Adjournment:**

There being no further business, the meeting was adjourned by unanimous consent.

Respectfully Submitted

Mark Hillis
Executive Director / Secretary Treasurer

PUBLIC PROTECTION CABINET
Department of Insurance
P.O. Box 517
Frankfort, Kentucky 40602-0517
1-800-595-6053
http://insurance.ky.gov

Matthew G. Bevin
Governor

K. Gail Russell
Secretary

Nancy G. Atkins
Commissioner

November 8, 2019

Mr. Stephen Mark Hillis
Kentucky FAIR Plan Reinsurance Association
10605 Shelbyville Rd.
Louisville, KY 40223

Re: John Miner, Kentucky National Insurance Company
Appointment to the Kentucky FAIR Plan Governing Committee

Dear Mr. Hillis,

Pursuant to your communication of October 7, 2019, John Miner is hereby appointed to the Kentucky FAIR Plan Governing Committee.

Sincerely,

Nancy G. Atkins, Commissioner

John Melvin
Director Product Regulation

Kentucky Department of Insurance
(502) 782-5295
John.Melvin@ky.gov

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
GOVERNING COMMITTEE

Governing Committee Member	Affiliation
Kristen K.W. Mellinger (Chair) Kentucky Farm Bureau Mutual Insurance Co. 9201 Bunsen Parkway Louisville, KY 40220 (502) 495-5000 x 7499 Kristen.Mellinger@kyfb.com	Domiciled (a)
Rudy Schlich (Vice Chair) Old Kentucky Insurance 915 Lily Creek Road Louisville, KY 40243 (502) 451-8800 Rudy.Schlich@oldkyins.com	Agent (d)
Lisa Pierce Allstate Insurance Company 555 Marriott Drive, Suite 700 Nashville, TN 37214 (615) 902-7053 Lisa.pierce@allstate.com	APCIA –Affiliated (c)
Steve Simkims State Farm Insurance Co. 285 Peachtree Center Avenue Suite 1200 Atlanta, GA 30303 (228) 217-3798 steve.simkins.le1o@statefarm.com	Non Affiliated (b)
Rick Caudill Travelers Insurance PO Box 650293 Dallas, TX 75265-0293 W: 502-645-0383 rcaudill@travelers.com	APCIA –Affiliated (c)
Anna Etherington Liberty Mutual Group Insurance 175 Berkeley Street Boston, MA 02116 857-224-2006 Anna.Etherington@LibertyMutual.com	NAMIC (c)
John Miner Kentucky National Insurance 2416 Sir Barton Way Lexington, KY 40509 (859) 519-1054 jominer@kynat.com	Domiciled (a)

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
GOVERNING COMMITTEE

Kentucky Department of Insurance Representative and Kentucky FAIR Plan Staff

Shawn D. Boggs, APIR Director Consumer Protection Division **Kentucky Department of Insurance** 500 Mero Street, 2 SE 11 Frankfort KY 40601 502 564 6034 Phone 502 564 6090 Fax shawn.boggs@ky.gov	
Stephen M. Hillis Executive Director and Secretary Treasurer Kentucky FAIR Plan Reinsurance Association P.O. Box 437249 Louisville, KY 40243 (502) 425-9998 Ext 2110 shillis@kyfairplan.com	
Melissa Chlon Assistant Director and Plan Manager Kentucky FAIR Plan Reinsurance Association P.O. Box 437249 Louisville, KY 40243 (502) 425-9998 Ext 2125 mchlon@kyfairplan.com	

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2019 and 2018

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Independent Auditors' Report

To the Governing Committee
Kentucky FAIR Plan Reinsurance Association
Louisville, Kentucky

We have audited the accompanying financial statements of Kentucky FAIR Plan Reinsurance Association (Association), which comprise the balance sheets – statutory basis as of December 31, 2019 and 2018, and the related statements of income – statutory basis, statements of changes in members' equity – statutory basis, and statements of cash flows – statutory basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance. Management is also responsible 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.

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.

9300 Shelbyville Road • Suite 1100 • Louisville, Kentucky 40222
Telephone 502.426.9660 • Fax 502.425.0883 • www.DMLO.com

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by Kentucky FAIR Plan Reinsurance Association in accordance with the financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Commonwealth of Kentucky Department of Insurance. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Kentucky FAIR Plan Reinsurance Association as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the balance sheets of Kentucky FAIR Plan Reinsurance Association as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with the financial reporting provision prescribed or permitted by the Commonwealth of Kentucky Department of Insurance as described in Note 1.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
March 10, 2020

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

BALANCE SHEETS - STATUTORY BASIS
December 31, 2019 and 2018

Admitted Assets	2019	2018
Investments	$ 14,875,606	$ 16,909,465
Cash and cash equivalents	1,086,565	2,918,533
Premiums receivable	682,483	757,565
Accrued interest receivable	145,388	178,097
Other receivables	197,975	
Refundable income taxes	107,170	455,687
Property occupied not exceeding 10% of admitted assets	1,415,428	1,445,238
Total admitted assets	$ 18,510,615	$ 22,664,585
Liabilities and Members' Equity		
Liabilities		
Insurance reserves:		
Losses	$ 341,710	$ 454,128
Loss adjustment expenses	55,144	59,501
Unearned premiums	2,118,945	2,441,585
	2,515,799	2,955,214
Commissions payable	39,108	53,193
Accrued expenses and payables	9,129	81,133
Net deferred tax liability	112,000	41,000
	160,237	175,326
Total liabilities	2,676,036	3,130,540
Members' Equity	15,834,579	19,534,045
Total liabilities and members' equity	$ 18,510,615	$ 22,664,585

See Notes to Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

STATEMENTS OF INCOME - STATUTORY BASIS

Years Ended December 31, 2019 and 2018

	2019	2018
Premiums Earned	$ 4,511,117	$ 5,266,085
Underwriting Expenses		
Losses	1,676,625	1,606,715
Loss adjustment	804,910	787,397
Commissions	385,089	446,521
Operating expenses	1,191,438	1,252,287
Total expenses	4,058,062	4,092,920
Underwriting gain	453,055	1,173,165
Other Income (Expense)		
Investment income	271,224	611,506
Service fees	47,879	61,548
Miscellaneous		(1,439)
Income before income tax	772,158	1,844,780
Income tax expense	212,525	309,657
Net income	$ 559,633	$ 1,535,123

See Notes to Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

STATEMENTS OF CHANGES IN MEMBERS' EQUITY - STATUTORY BASIS

Years Ended December 31, 2019 and 2018

	2019	2018
Members' equity, beginning of year	$ 19,534,045	$ 18,329,464
Net income	559,633	1,535,123
Change in net unrealized gains and losses on investments	569,201	(680,359)
Change in deferred tax liability	(71,000)	111,000
Change in nonadmitted assets	249,973	238,817
Distribution to members	(5,007,273)	
Members' equity, end of year	$ 15,834,579	$ 19,534,045

See Notes to Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

STATEMENTS OF CASH FLOWS - STATUTORY BASIS
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Premiums collected, net of refunds	$ 4,263,559	$ 5,049,959
Underwriting and other expenses paid	(4,009,539)	(3,761,421)
Cash received under cost sharing agreement	1,433,204	
Cash paid under cost sharing agreement	(1,628,765)	
Investment and other income received	299,710	590,061
Net income taxes refunded (paid)	170,722	(679,409)
Net cash provided by operating activities	528,891	1,199,190
Cash Flows from Investing Activities		
Proceeds from sale of investments	3,615,000	2,026,492
Purchases of investments	(959,838)	(4,233,963)
Purchases of property and equipment	(8,748)	(78,150)
Net cash provided by (used in) investing activities	2,646,414	(2,285,621)
Cash Flows Used In Financing Activities		
Distribution to members	(5,007,273)	
Net decrease in cash and cash equivalents	(1,831,968)	(1,086,431)
Cash and cash equivalents at beginning of year	2,918,533	4,004,964
Cash and cash equivalents at end of year	$ 1,086,565	$ 2,918,533
Reconciliation of Net Income to Net Cash Provided by Operating Activities		
Net income	$ 559,633	$ 1,535,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of investments	(52,102)	(38,766)
Depreciation expense	288,531	286,942
Changes in assets and liabilities:		
(Increase) decrease in:		
Premiums receivable	75,082	160,454
Other receivables	(197,975)	
Accrued interest receivable	32,709	(44,227)
Refundable income taxes	348,517	(329,717)
Increase (decrease) in:		
Insurance reserves	(439,415)	(390,492)
Commissions payable	(14,085)	(17,785)
Accrued expenses and payables	(72,004)	37,658
Net cash provided by operating activities	$ 528,891	$ 1,199,190

See Notes to Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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

Nature of operations:

The Kentucky FAIR Plan Reinsurance Association is an unincorporated association of all insurance companies writing certain insurance coverage in Kentucky. It was formed by Kentucky Statute 304.35-010(2) to establish and maintain a mechanism whereby basic property or casualty insurance can be made available to all worthy applicants and to equitably distribute the related costs, losses or profits.

Each member shall participate in the writings, expenses, income, and losses of the Association in any particular calendar year in the same proportions that the member's voluntary direct premiums written during the preceding calendar year bear to the total of such direct premiums written by all members during the preceding calendar year. The participation factors of all members shall be thus determined annually and shall be fixed for each separate calendar year based on the respective member's premium written in the preceding calendar year.

The plan of the Association provides in such form and detail as the plan may determine, reports of operations of the Association, including such reports as may be necessary to permit members to be informed of their proportionate share of results of the plan for inclusion in their own operational reports.

Summary of significant accounting policies:

This summary of significant accounting policies of Kentucky FAIR Plan Reinsurance Association is presented to assist in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles on the statutory basis of accounting and have been consistently applied in the preparation of the financial statements.

Basis of accounting:

The Association prepares its financial statements on the statutory basis of accounting as prescribed or permitted by the Commonwealth of Kentucky Department of Insurance for insurance companies. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations, and general administrative rules.

Statutory accounting practices vary in some respects from accounting principles generally accepted in the United States of America. The more significant differences are as follows:

- Certain costs of acquiring insurance business, principally commissions, are expensed as incurred rather than deferred and amortized as the related premiums are earned.

- Salvage and subrogation recoveries are recognized when received rather than accrued.

- Certain assets, principally certain deposits, premium receivables greater than 90 days past due, and furniture and equipment, are designated as "non-admitted assets" and are charged directly to members' equity in the statutory accounts. The total cost of the property to be occupied by the Association may not exceed 10% of the total admitted assets. The remainder must be designated as "non-admitted assets."

- Investments in available-for-sale securities having a fixed term, rate and face value are stated at amortized cost rather than fair value.

Use of estimates:

The preparation of financial statements under accounting practices prescribed or permitted by the Commonwealth of Kentucky Department of Insurance requires management to make estimates and assumptions that affect the reported amounts of 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.

Investments:

Investment securities are classified as available-for-sale. As prescribed by the NAIC, investments in securities having a fixed term, rate and face value are stated at amortized cost, and other investments are stated at fair value. Securities stated at amortized cost are amortized using the straight-line method. See Note 2 for discussion of fair value measurements.

Realized gains and losses, resulting from sales of securities, represent the difference between the net proceeds and the carrying value of investments sold, as determined on a specific identification basis. Unrealized gains and losses on securities are credited or charged to members' equity.

Cash equivalents:

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash with insignificant risk of changes in value due to changing interest rates.

Premiums receivable:

Premiums receivable consist of unsecured amounts due from policyholders. Amounts are considered past due based on policy terms. If unpaid per policy terms, the policy is cancelled and related unearned premium is reversed. The Association considers all premiums receivable at December 31, 2019 and 2018 to be fully collectible. Accordingly, there is no allowance for doubtful accounts.

Property and equipment:

Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings and improvements	5-40 years
Furniture and equipment	5-10 years

Depreciation expense was $288,531 and $286,942 for the years ended December 31, 2019 and 2018, respectively.

During 2019, the Association placed its property for sale. Subsequent to year end, a contract was signed for the sale of the building in the amount of $1,750,000. The total book value of the property at December 31, 2019 was $1,415,428 and is included in property occupied not exceeding 10% of admitted assets on the balance sheet.

Loss and loss adjustment expense reserves:

Loss and loss adjustment expense reserves are based on losses reported and adjusted and estimates for loss and loss adjustment expenses incurred but not reported. The Association relies on the actuarial opinion of AIPSO, a management organization and service provider for the residual market, in determining the estimate for loss and loss adjustment expenses incurred but not reported. Loss and loss adjustment expense reserves are based on estimates, and the ultimate liability may vary significantly from such estimates. Changes in estimates are recorded in the statement of income in the year in which the Association becomes aware of the need for revision.

Premiums and underwriting expense:

Insurance premiums are earned ratably over the terms of the underlying policies. Commissions and other costs related to acquiring business are charged to operations as incurred.

Reinsurance:

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

Newly issued standard not yet effective:

The Financial Accounting Standards Board has issued accounting standard No. 2016-02, *Leases*, effective for years beginning after December 15, 2020. The Plan is evaluating the impact that this standard will have on the statutory basis of accounting.

Subsequent events:

Subsequent events have been evaluated through March 10, 2020, which is the date the financial statements were available to be issued.

Note 2. Investments and Fair Value Measurements

The NAIC has adopted the framework for measuring fair value provided by accounting principles generally accepted in the United States of America. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to valuation methodology are unadjusted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to 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.

Level 3 – Inputs to valuation methodology are unobservable and significant to the fair value measurement.

All equity mutual funds measured at fair value are Level 1 assets and 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 December 31, 2019 and 2018.

Equity mutual funds – valued at the closing price reported in the active market in which the security is traded.

The following tables summarize investments as of December 31, 2019 and 2018:

	2019	2018
Municipal bonds at amortized cost	$10,660,540	$13,464,728
Equity mutual funds at fair value	4,215,066	3,444,737
	$14,875,606	$16,909,465
Municipal bonds:		
Fair value	$10,792,062	$13,219,118
Carrying value (amortized cost)	10,660,540	13,464,728
Excess fair (carrying) value	$ 131,522	$ (245,610)
Equity mutual funds (Level 1):		
Fair value	$4,215,066	$3,444,737
Cost	3,783,071	3,581,943
Unrealized gain (loss)	$ 431,995	$ (137,206)

The schedule of maturities for municipal bonds at December 31, 2019 is as follows:

	Book Value	Fair Value
Due in one year or less	$ 627,820	$ 629,166
Due after one year through five years	4,869,460	4,872,383
Due after five years through ten years	5,163,260	5,290,513
	$10,660,540	$10,792,062

Proceeds from the sale of securities were $3,615,000 and $2,026,492 for the years ended December 31, 2019 and 2018, respectively. Total gains realized on these sales were $52,102 and $38,766 for the years ended December 31, 2019 and 2018, respectively.

Investments with declines in fair value are evaluated for other-than-temporary impairment. The evaluation includes (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Association to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Other-than-temporary impairment of investments is reported in revenues. For the years ended December 31, 2019 and 2018, the Association did not record any other-than-temporary impairments.

The following table summarizes securities with unrealized losses at December 31, 2019 and 2018, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Municipal bonds:						
2019			$ 88,229	$3,419,211	$ 88,229	$3,419,211
2018	$5,608	$1,126,228	$286,247	$6,344,080	$291,855	$7,470,308

NOTES TO FINANCIAL STATEMENTS

Note 3. Liability for Loss and Loss Adjustment Expenses

Underwriting results are affected by catastrophes and weather related events which may vary year to year. Activity in the liability for loss and loss adjustment expenses as of and for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Reserves, beginning of year	$ 513,629	$ 527,541
Incurred loss and loss adjustment expenses:		
Provision for insured events of current year	767,161	1,176,195
Increase in provision attributable to prior year events	1,714,374	1,217,918
Total incurred	2,481,535	2,394,113
Payments:		
Attributable to current year events	1,068,145	1,312,509
Attributable to prior year events	1,530,165	1,095,516
Total paid	2,598,310	2,408,025
Reserves, end of year	$ 396,854	$ 513,629

Note 4. Retirement Plans

The Association has a money-purchase pension plan and 401(k) defined contribution plan that cover substantially all employees. Contributions to the money-purchase pension plan are determined annually at the discretion of the Governing Committee. Annual expense provisions for the 401(k) defined contribution plan are based upon the Association matching a portion of the employees' contributions. Total expense for these plans for the years ended December 31, 2019 and 2018 was $82,189 and $91,089, respectively.

Note 5. Related Party Transactions

Kentucky Automobile Insurance Plan (KAIP), Kentucky Insurance Guaranty Association, Kentucky Insurance Arbitration Association, and Kentucky Assigned Claims Plan are related organizations under a cost sharing agreement. KAIP and the Association furnish personnel and general and administrative support for the Association and the above entities and allocate the charges to each. The cost sharing agreement was managed and administered by KAIP through December 31, 2018. Effective January 1, 2019, the Association began managing and administering the cost sharing agreement.

Following is a summary of the transactions and balances under the cost sharing agreements for the years ended December 31, 2019 and 2018:

	2019	2018
Payable at beginning of year	$ (67,623)	$ (46,161)
Expenses allocated from related party		(356,458)
Expenses allocated to related parties	1,628,765	
Payments made to related parties	67,623	334,996
Payments received from related parties	(1,433,204)	
Receivable (payable) at end of year	$ 195,561	$ (67,623)

Receivables are included in other receivables and payables are included in accrued expenses and payable on the Balance Sheet.

Note 6. Operating Leases

The Association leases office space to the related parties in Note 5 under an operating lease through December 31, 2023. The lease has an automatic renewal provision which allows for the lease to automatically renew and extend an additional year unless either party gives written notice of intent not to renew at least 180 days prior to expiration of the term of the lease. Rent is based on actual utilities, maintenance, taxes, insurance and related expenses associated with the property. Rental income received for the years ended December 31, 2019 and 2018 was $62,472 and $60,254, respectively, and is included in investment income on the income statement.

Note 7. Income Taxes

The provision for income taxes consists of federal income taxes currently due or refundable. The Association is exempt from state income taxes. Income taxes vary from the amount that would be obtained by applying statutory income tax rates to income before income taxes because of large amounts of non-taxable interest income and deductions related to insurance reserves.

As of December 31, 2019 and 2018, the Association 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.

Changes in deferred taxes are related to unrealized gains and losses on investments and differences in federal and book depreciation and are included in change in deferred tax liability on the statements of changes in members' equity - statutory basis.

Note 8. Contingencies

For the years ended December 31, 2019 and 2018, there were no assessments to members because of the ability of the Association to pay its claims and expenses with funds generated from premiums and net assets. Should claims and related expenses prove greater than anticipated, the Association would assess member insurance companies to cover additional costs.

Note 9. Concentration of Credit Risk

The Association maintains its cash at various financial institutions. The total balance at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2019, the Association's uninsured cash balance totaled approximately $2,397,000.

Note 10. Commitments

The Association has entered into a reinsurance agreement which terminates October 1, 2021. Under the agreement, the reinsurer shall be liable in respect to each loss occurrence, for the ultimate net loss over and above an initial ultimate net loss of $3,000,000 each loss occurrence, subject to a limit of liability to the reinsurer of $7,000,000 each loss occurrence. Amounts paid under reinsurance agreements were $130,397 and $137,796 for the years ended December 31, 2019 and 2018, respectively.

DMLO
DEMING MALONE
LIVESAY & OSTROFF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Supplementary Information

To the Governing Committee
Kentucky FAIR Plan Reinsurance Association
Louisville, Kentucky

We have audited the financial statements of Kentucky FAIR Plan Reinsurance Association as of and for the years ended December 31, 2019 and 2018, and our report thereon dated March 10, 2020, which expressed an unmodified opinion on those financial statements, appears on page 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedules of Operating Expenses – Statutory Basis are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
March 10, 2020

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KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

SCHEDULES OF OPERATING EXPENSES - STATUTORY BASIS
Years Ended December 31, 2019 and 2018

	2019	2018
Wages	$ 700,568	$ 749,341
Depreciation	252,128	251,920
PASS contract	124,184	170,519
Information processing fees	118,738	127,933
Health insurance	101,820	99,351
Retirement plans	82,189	91,089
Payroll taxes	54,773	55,627
Inspections	53,345	46,198
Computer	51,259	31,386
Membership fees	40,957	41,446
Bank service fees	37,824	46,215
Insurance	29,798	21,033
Miscellaneous	23,728	24,439
Professional fees	23,286	22,344
Taxes and licenses	22,765	40,052
Actuarial fees	17,649	3,872
Travel and entertainment	11,692	16,656
Postage and courier	10,851	14,942
Telephone and utilities	10,425	9,022
Office supplies	8,585	7,542
Repairs and maintenance	5,205	5,064
Printing	3,023	1,005
Dues and subscriptions	2,365	1,434
	1,787,157	1,878,430
Less one-third attributable to loss adjustment expense	(595,719)	(626,143)
	$ 1,191,438	$ 1,252,287

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DEMING MALONE LIVESAY & OSTROFF
CERTIFIED PUBLIC ACCOUNTANTS

To the Governing Committee
Kentucky FAIR Plan Reinsurance Association
Louisville, Kentucky

We have audited the financial statements of Kentucky FAIR Plan Reinsurance Association (Association) for the year ended December 31, 2019, and have issued our report thereon dated March 10, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 11, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kentucky FAIR Plan Reinsurance Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the loss and loss adjustment expense reserves. These estimates are based on losses reported and adjusted and estimates for loss and loss adjustment expenses incurred but not reported. The Association relies on the actuarial opinion of AIPSO, a management organization and service provider for the residual market, in determining the estimate for loss and loss adjustment expenses incurred but not reported. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of investments in Note 2 to the financial statements. This disclosure is significant due to the materiality of investments to the financial statements.

The disclosure of liability of loss and loss adjustment expenses in Note 3 to the financial statements. This disclosure is significant due to the information provided on the future liability of the Association.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following adjustment for the Association determined as a result of non-attest services was recorded by management.

	Decrease in Net Income
Record annual income tax expense entry based on final year-end figures	$207,016

In addition, the schedule below summarizes uncorrected adjustments of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

	Decrease in Net Income
Accrue PTO and payroll	$8,151

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 10, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Governing Committee and management of Kentucky FAIR Plan Reinsurance Association and is not intended to be, and should not be, used by anyone other than these specified parties.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
March 10, 2020

KENTUCKY FAIR PLAN Budget Status				
Line	**2017 Budget**	**2018 Budget**	**2019 Budget**	**2019 Final**
Accounting Fees	$19,474	$17,108	$17,644	**$17,200**
Actuarial Review	$19,008	$19,008	$17,600	**$17,649**
Allocated Wages	$51,241	$70,610	$114,737	**$0**
Board Meetings	$600	$700	$700	**$860**
Bldg. Repairs & Main.	$35,430	$35,335	$35,500	**$32,268**
Bldg. Utilities	$20,570	$20,132	$18,788	**$14,781**
Building Taxes	$18,985	$19,188	$18,662	**$19,487**
Computer Expenses	$29,500	$30,434	$57,406	**$51,259**
Courier Services	$2,000	$500	$0	**$0**
Dues & Subscriptions	$1,344	$1,100	$1,284	**$2,365**
Education	$4,230	$6,191	$6,630	**$4,549**
Filing Fees	$1,300	$420	$420	**$0**
Health Insurance	$102,273	$98,399	$120,985	**$101,820**
Human Resources	$2,500	$3,243	$6,466	**$7,190**
Inspections	$93,372	$66,460	$54,715	**$53,345**
P&C Insurance	$32,583	$26,085	$23,764	**$29,798**
Legal/Professional	$9,000	$9,000	$7,000	**$4,086**
Meals & Entertainment.	$1,500	$1,500	$1,500	**$1,837**
Memb.Fees - PIPSO/ISO	$41,549	$40,751	$41,392	**$40,957**
Miscellaneous	$1,000	$1,000	$1,000	**$883**
Moving Expense	$15,000	$0	$0	**$0**
Office Equipment	$2,550	$2,400	$2,400	**$2,308**
Office Supplies	$8,878	$7,676	$5,000	**$6,277**
Payroll Fees	$5,408	$5,439	$5,511	**$3,847**
Payroll Tax	$60,412	$60,755	$74,618	**$54,773**
Retirement Savings Plan	$98,564	$120,783	$104,681	**$82,189**
Postage	$10,240	$15,608	$11,622	**$10,851**
Printing	$3,854	$3,402	$3,420	**$3,023**
Processing	$165,528	$166,590	$130,222	**$118,738**
Repairs and Maintenance	$15,878	$5,928	$5,268	**$5,206**
Systems/PASS	$216,678	$150,560	$128,969	**$124,184**
Telephone	$10,910	$9,142	$9,140	**$10,425**
Travel	$9,619	$11,669	$8,519	**$9,855**
Wages (Non Allocated)	$666,827	$665,809	$631,443	**$666,140**
Total	**$1,777,807**	**$1,692,925**	**$1,667,006**	**$1,498,150**

FAIR Plan Cost Sharing Alliance - Mission Statement

The shared services mission of the FAIR Plan Cost Sharing Alliance is to implement and manage high quality services for FAIR Plans at the lowest possible cost. We will seek to eliminate duplicated FAIR Plan insurance operating costs in an efficient and cost-effective manner.

Acting as a service manager for various FAIR Plans, we will strive to reduce operating expenses by combining services or group purchasing for Plans where size and activity level may require the improved efficiencies to be achieved by centralized operations. We will ensure that cost-effective quality services of optimum value are provided to each Plan, while working to keep the costs of the consolidated services and operations as low as possible. We will continue to streamline and monitor the consolidated services we manage on behalf of the FAIR Plans.

We will continuously evaluate the shared services to ensure we meet the needs of our insureds and the standards of our individual boards, member companies and Departments of Insurance. We understand that each FAIR Plan is ultimately responsible for its own operations and data and as a result we will apply the appropriate oversight, guidance and data integrity standards to all centralized operations.

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Joseph A. Hathaway, CPA, CPCU
General Manager

March 12, 2020

Mark Hillis
Executive Director
Kentucky FAIR Plan
10605 Shelbyville Road
Louisville, KY 40223

Dear Mark,

This letter serves as confirmation that the IFPA Governing Committee supports the efforts of the Cost Sharing Alliance and looks forward to developing operating efficiencies for both the FAIR Plans and the insurance industry. Starting with Dave Asher and now with you, the KFP has always been the IFPA's most trusted and productive cost sharing partner and by building on past successes there should be much success in the future. I want to say thanks again to you and Melissa for your help with our Coronavirus related print issues. I appreciate you co-chairing this effort and committing KFP's staff and resources to the Alliance and I look forward to further developing the cost sharing concept through our combined efforts.

Sincerely,

Joseph A. Hathaway

Joseph A. Hathaway
General Manager

KENTUCKY FAIR PLAN

PIPSO SEMI-ANNUAL REPORT

OF PROPERTY INSURANCE PLAN COVERAGE

Line #	Description	YEAR-TO-DATE DATA DATES REPORTED 01/01/20 to 03/31/20
	NEW BUSINESS	
1	Number of applications accepted	329
2	Number of inspections completed	329
3	Number of new policies issued	329
	RENEWAL BUSINESS	
4	Number of requests for renewals	1,649
5	Number of renewals inspected	415
6	Number of renewal policies issued	1,649
	RESULTS BY CLASS OF BUSINESS	
	Number of policies issued (new & renewal)	
7	Habitational	1,890
8	Commercial	88
	Total Premium Written (000)	
9	Habitational	962
10	Commercial	65
	Total exposure (000)	
11	Habitational	369,568
12	Commercial	15,116
	LOSSES BY CLASS OF BUSINESS	
	Number of Losses Reported	
13	Habitational	70
14	Commercial	2
	Number of Losses Paid	
15	Habitational	49
16	Commercial	2
	Total Paid Losses (000)	
17	Habitational	552
18	Commercial	17
	Total Outstanding Losses - Case Basis (000)	
19	Habitational	98
20	Commercial	1

Kentucky FAIR Plan Committee Assignments – 2020

Committee	Member	Company
Executive Committee	Kristen Mellinger	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Mark Hillis -Executive Director	Kentucky FAIR Plan
Investment Committee	Lisa Pierce	Allstate Insurance Co.
	Carrie Schaaf	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Steve Holley	Investment Advisor – Merrill Lynch
	Mark Hillis - Executive Director	Kentucky FAIR Plan
Members Equity and Reinsurance Committee	Kristen Mellinger	Kentucky Farm Bureau
	Rick Caudill	Travelers
	Steve Simkims	State Farm
	Mark Hillis – Executive Director	Kentucky FAIR Plan
Audit Committee	Carrie Schaaf	Kentucky Farm Bureau
	Steve Simkims	State Farm
	John Minor	Kentucky National Insurance Company
	Tina Faleide	Kentucky FAIR Plan
Products and Forms Committee	Kristen Mellinger	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Anna Etherington	Liberty Mutual
	Erin Lux	Kentucky FAIR Plan
Underwriting Committee	Lori Comella	Kentucky Farm Bureau
	Dwayne Taylor	State Farm
	Oliver Casey	C.N.A.
	Erin Lux	Kentucky FAIR Plan
Claims Committee	Henry Goins	Kentucky Farm Bureau
	Dan Pendleton	Kentucky Farm Bureau
	Andy Lewis	State Farm
	Don Wafzig	Kentucky Farm Bureau
	Keith Howard	Nationwide
	Russ Thornton	Kentucky FAIR Plan
KAIP Compensation and Benefits	Lisa Pierce	Allstate Insurance Co.