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 3, 2021 **via teleconference**.

Agenda:

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

The Governing Committee and Annual meetings of the Kentucky FAIR Plan were held at 10:30 AM on October 22, 2020 via teleconference.

Those present:

Governing Committee:

Kristen Mellinger	(Chair)	Kentucky Farm Bureau Ins. Co.
Rudy Schlich	(Vice Chair)	Old Kentucky Insurance
Lisa Pierce, J.D.		Allstate Insurance Company
Steve Simkims		State Farm Insurance Co.
Anna Etherington		Liberty Mutual Group Insurance
John Miner		Kentucky National Insurance

Kentucky Department of Insurance:

Rob Roberts	Kentucky Department of Insurance

Staff:

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

1. Call to Order and Roll Call:

Mr. Hillis thanked the Governing Committee and Mr. Roberts from the Kentucky Department of Insurance for being able to work and serve the insurance industry and for the ability to provide residual market support through the Plans for the Commonwealth of Kentucky.

Ms. Mellinger called the meeting to order and held roll call for each committee members, staff, and guests and noted that a quorum was present.

2. Antitrust Preamble:

Ms. Mellinger reminded everyone that we are bound by the Anti-Trust Preamble that was provided in the meeting documents.

3. Approval of Minutes:

The Committee reviewed minutes of the June 4, 2020 Governing Committee Meeting, Alliance Mail Votes of June 2020, Underwriting Committee of September 2020, Claims Committee of September 2020, Reinsurance and Equity Committee of September 2020 and Investment Committee of September 2020 which were distributed and included with the meeting documents. Mr. Schlich moved, and Ms. Pierce seconded to approve the minutes and ratify the actions of the committees. The motion passed unanimously.

4. Committee Reports

Underwriting Audit Committee Report:

Ms. Lux presented the results of the audit conducted by the members of the Underwriting Committee in August 2020 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.

Claims Audit Committee Report:

Ms. Lux presented the results of the audit conducted by members of the Claims Committee in September 2020 in which no deficiencies were identified. She further noted that the claim files were handled timely, well documented, and overall good quality.

Mr. Hillis noted that the Underwriting and Claims associates have dual roles which adds value in their ability to make thoughtful, sound decisions.

Reinsurance and Equity Committee Report:

Mr. Hillis advised that a meeting was held on September 10, 2020 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. 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. Schaaf led a general discussion noting that the funds were reviewed often, and the portfolio is managed well by Steve Holley.

5. Executive Director's Report:

Ms. Chlon presented a status report for 2020 results indicating:

- New business applications are projected to be around 1,140 at year end.
- Written premium is projected to be $3.6M, a decline of 16% from 2019.
- The loss ratio remained flat over 2019 while the LAE ratio increased 17.6%.
- The loss and LAE ratio is 59.27%.
- The operating expense ratio increased slightly to 26.4%.
- Reported claims are projected to end the year at 288, down from 318 in 2019.
- Members Equity balance is $560,808 with $559,271 in outstanding checks.

6. 2021 Budget:

Mr. Hillis noted that the Plans have experienced very few requests for special attention relative to payment plans, nor have the Plans received an influx in applications, as we continue to navigate through the COVID pandemic.

Mr. Hillis indicated the Plan is on track to end 2020 under budget. He noted that the budget was impacted by the continued increase in medical benefits costs. The 2021 health insurance rates are not available yet; however, we are expecting no less than a 10% increase. Mr. Hillis 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 $1,623,408 was proposed for 2021. Following general discussion on budget center fluctuations, Mr. Miner moved, Ms. Mellinger seconded and the motion to approve the 2021 budget was unanimously approved.

7. Other Business:

New Building Update:

Mr. Hillis advised the group that we moved into the new building mid-September. Mr. Hillis thanked the Facilities Committee for their assistance through the process of selling and purchasing the new location.

FAIR Plan Alliance:

Mr. Hillis discussed the FAIR Plan Alliance, and the request that Kentucky has received from the Illinois FAIR Plan for ongoing and long-term support. He requested consideration to form a subcommittee that would work with a similar subcommittee from Illinois, to continue the discussion around efficiencies to be gained by a FAIR Plan Alliance. Mr. Hillis reminded the committee that there has been an ongoing partnership within a few Plans, particularly with Illinois. And for many years, the Illinois Plan had provided systems, as well as IT support to Kentucky.

Committee Assignments:

Ms. Mellinger advised that updated committee assignments were included in the meeting materials. She asked for questions regarding the assignments and there were none.

PIPSO Report:

Ms. Mellinger advised that in accordance with the Articles of Association the abbreviated quarterly PIPSO report is provided to the Governing Committee and Department of Insurance.

Kentucky Department of Insurance Comments:

Ms. Mellinger thanked Mr. Roberts for representing the Department of Insurance and invited any updates or comments.

Mr. Roberts expressed his appreciation to the Plan and the industry indicating he is looking forward to meeting in person. He provided updates noting that the Department employees continue to work from home. Mr. Roberts further provided some staffing updates at the request of Deputy Commissioner DJ Wasson; Victoria Lloyd is the new Director of Financial Standards, Scott Mosely is the Acting Director for P & C, and Jill Mitchell, under the leadership of DJ Wasson, will be handling Life and Health. Mr. Roberts noted that Sandra Batts is no longer with the Department and that Rodney Hugle is helping to bring Ms. Lloyd up to speed. Mr. Roberts advised that Commissioner Clark and the Kentucky Department of Insurance recently passed the NAIC accreditation program. Mr. Roberts concluded by noting that Commissioner Clark and the Department are happy with the work and the staff contributions of the Kentucky FAIR Plan.

Next meeting:

Ms. Mellinger noted that the spring meeting will likely be virtual depending on the pandemic. The next meeting date is set for Thursday June 3, 2021.

8. Adjournment:

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

Respectfully Submitted,

Melissa Chlon

Melissa Chlon
Assistant Director / Plan Manager

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

PRODUCT AND FORMS COMMITTEE MEETING

Pursuant to notice, a meeting was held at 10:45 AM on April 14, 2021 via teleconference.

Present for the meeting:

Kristen Mellinger	Kentucky Farm Bureau
Rudy Schlich	Old Kentucky Insurance
Mark Hillis	Kentucky FAIR Plan
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 13, 2020 meeting. Mr. Schlich made a motion to approve the minutes which was seconded by Ms. Mellinger.

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 81.2% of all the FAIR Plan policies
   - HO2, HO4, HO6, HO8 – representing approximately 14.7%
   - Commercial Fire – representing 2.4%
   - Farm Property – representing 1.7%

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

   Ms. Chlon then shared that policies in force were approximately 5,857 at the end of 2020. She further noted that written premium continued to decline and was down 13% over 2019. Q1 2021 reflected 5,665 policies.

   She further 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. General conversation amongst the group took place concerning the status of the standard market and the ability to address most risks.

   Ms. Chlon noted that Mr. Hillis kept the sub-committee, Governing Committee and Commissioner Clark from the Kentucky Department of Insurance engaged throughout 2020 regarding the status for the office and any pending inquiries of the Plan as it relates to COVID-19. The Plan continues to see that the standard market is able to address a majority of the business that may have historically come to the FAIR Plan as indicated by declining applications, written premiums, and policies in force.

There were a few billing inquiries made by policyholders which were Covid related that the Plan was able to accommodate by working within the current policy and admin system with pay plan adjustments.

5. **Other Business:**

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 virtual Governing Committee meeting scheduled for June 3, 2021.

6. **Adjournment:**
There being no further business, Ms. Mellinger made a motion to adjourn which was seconded by Mr. Schlich.

Respectfully submitted,

Melissa Chlon
Assistant Director / Plan Manager

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
AUDIT COMMITTEE MEETING

Pursuant to notice, a meeting was held at 9:30 AM on April 14, 2021 via teleconference.

Present for the meeting:

Carrie Schaaf	Kentucky Farm Bureau
John Miner	Kentucky National Insurance
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:**
Mr. Hillis 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 13, 2020 meeting. Mr. Miner made a motion to approve the April 13, 2020 Audit Committee Meeting minutes, Ms. Schaaf seconded, and the motion carried.

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 2022. 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.

After further discussion, Ms. Schaaf made a motion to re-engage DMLO for auditing services in 2022. Mr. Simkims seconded, and the motion carried.

Mr. Miner asked for clarification as to the Adverse Opinion on U.S. Generally Accepted Accounting Principles. Ms. Faleide noted that this was a required statement from an auditing firm addressing that as the Plan follows Statutory Accounting Principles, they were acting in accordance with the reporting provision prescribed and permitted by the Commonwealth of Kentucky.

Ms. Faleide then noted that on page 4 of the Statements of Income, that Miscellaneous reflected $51,373 in income and noted that these funds were for work done by the Kentucky FAIR Plan for Plans in other states.

Mr. Miner reviewed and noted that on page 5 of the Statement of Changes in Members Equity that 2019 reflected Distribution to Members and at that point, a general discussion took place with regards to the current status of the Members Equity to include the Plans only disbursement efforts from 2019. Mr. Hillis noted that the Equity and Reinsurance Committee did review this annually, and that this remains as an agenda item for that committee. He noted that the Plan had not assessed in over 25 years, but that the current Articles of Association still required the Plan to seek the approval of the Commissioner of Insurance to either disburse or assess – which was unique compared to other FAIR Plans.

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

Ms. Faleide asked the committee if there was other business to discuss. Hearing none, the committee was reminded that the spring Governing Committee will be held virtually June 3, 2021.

6. Adjournment:

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

Respectfully Submitted,

Melissa Chlon

Melissa Chlon
Assistant Director / Plan Manager

FAIR PLAN REINSURANCE ASSOCIATION
FINANCE AND INVESTMENT COMMITTEE MEETING

Pursuant to notice, a meeting was held at 10:00AM on April 14, 2021 via teleconference.

Present for the meeting:

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 and ICS accounts reflected a total of $1,396,308 as of March 31, 2021.

Mr. Hillis noted that the Plans had seen no real impact to claims, applications, nor had they received many requests for payment assistance from policyholders during the 2020 Covid pandemic. He further noted that he had remained in contact with the Department of Insurance through the pandemic to keep them appraised of any issues that had arisen noting that the DOI had been very supportive and responsive.

Mr. Hillis noted as a reminder that the Plan had sold their prior building and purchased a new, less expensive building.

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 17.91% cash, 30.3% equity and 51.76% fixed assets.

A brief discussion took place relating to the results of 2020 comparing the FAIR Plan results to both the DOW average and the S&P average (64.24%, 53.78% and 56.35% respectively). Further, Mr. Holley provided for a quick review of the markets and the potential impacts of the current economic and political news.

Based upon the current positions of the investment program in the equities markets, Mr. Holley made a recommendation to stop the monthly equity purchase program. He further noted that there was a need to sell approximately $1m in equities to reduce the Plans equity position. The committee agreed.

It was then noted that Mr. Holley would work with Mr. Hillis to continue to fill out the bond ladder with funds from equities, as well as from the ML cash balance.

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

Ms. Schaaf discussed the bond and mutual funds analysis report that she had completed.

Ms. Schaaf noted that she had reviewed the mutual funds compared to each fund's stated benchmark and ratings. She noted that the portfolio was well managed with highly rated bonds.

Ms. Schaaf then reviewed the bonds ladder and noted that with the need to reduce equities and the cash position, that it was clear that bond yields would drop and as such, discussed short term bonds and the layout of the current bond ladder. It was agreed that the Plans Investment Concept and Funds Management Policy was a good benchmark, and all agreed that remaining consistent in following this policy made the most sense for the Plan.

Ms. Schaaf did note that her review reflected that the American Beacon Bridge had underperformed at 1, 3, 5 and 10 years and should be a good mutual fund to consider removing from the program.

7. **Other Business:**

Mr. Hillis advised that the next Governing Committee meeting is scheduled for 10:30 am on June 3rd, 2021.

8. **Adjournment:**

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

Respectfully Submitted

Stephen Ulrich Hillis

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

Andy Beshear
Governor

Kerry B. Harvey
Secretary

Sharon P. Clark
Commissioner

February 2, 2021

Mr. Stephen Mark Hillis
Kentucky FAIR Plan
PO Box437249
Louisville, KY 40243

Re: Keith Howard, Hanover Insurance
Appointment to Kentucky FAIR Plan Governing Committee

Dear Mr. Hillis,

Pursuant to your communication of January 25, 2021, Keith Howard is hereby appointed to the Kentucky FAIR Plan Reinsurance Association Governing Committee.

Sincerely,

Sharon P. Clark, Commissioner

Shawn Boggs
Director, Division of Consumer Protection

Kentucky Department of Insurance
(502) 564 3630
Shawn.Boggs@ky.gov

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Andy Beshear
Governor

Kerry B. Harvey
Secretary

Sharon P. Clark
Commissioner

April 29, 2021

Mr. Stephen Mark Hillis
Kentucky FAIR Plan
PO Box437249
Louisville, KY 40243

Re: Jay Kepperling, Nationwide Insurance Company
Appointment to Kentucky FAIR Plan Governing Committee

Dear Mr. Hillis,

Pursuant to your communication of April 28, 2021, Jay Kepperling is hereby appointed to the Kentucky FAIR Plan Reinsurance Association Governing Committee.

Sincerely,

Sharon P. Clark, Commissioner

Shawn Boggs
Director, Division of Consumer Protection

Kentucky Department of Insurance
(502) 564 3630
Shawn.Boggs@ky.gov

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)
Keith Howard Hanover Insurance 440 Lincoln Street Worcester, MA 01653 W: 859-229-8017 khoward@hanover.com	APCIA –Affiliated (c)
Jay Kepperling Nationwide Mutual Insurance Company 1 Nationwide Plaza Columbus, OH 43215 502-645-9562 jay1@nationwide.com	NAMIC (c)
John Miner Kentucky National Insurance 2416 Sir Barton Way Lexington, KY 40509 (859) 519-1054 jominer@kynat.com	Domiciled (a)

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	

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KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
Year Ended December 31, 2020

Financial Highlights	**12/31/2020**	**12/31/2019**
Investments	$ 14,013,066	$ 14,875,606
Cash and cash equivalents	$ 3,086,289	$ 1,086,565
Premiums receivable	$ 542,016	$ 682,483
Property occupied	$ 880,542	$ 1,415,428
Total admitted assets	$ 19,052,823	$ 18,510,615
Insurance reserves	$ 1,924,114	$ 2,515,799
Total liabilities	$ 2,157,934	$ 2,676,036
Members' equity	$ 16,894,889	$ 15,834,579
Premiums earned	$ 3,895,618	$ 4,511,117
Change in premiums earned	-13.6%	
Underwriting expenses	$ 3,828,739	$ 4,058,062
Change in underwriting expenses	-5.7%	
Investment income	$ 585,128	$ 271,224
Income tax expense	$ 148,507	$ 212,525
Net income	$ 600,563	$ 559,633
Distribution to members	$ -	$ 5,007,273
Net cash flow from operations	$ (105,693)	$ 528,891
Change in cash	$ 1,999,724	$ (1,831,968)

Comments

- Financial statements are prepared on the statutory basis of accounting as prescribed or permitted by the Kentucky Department of Insurance
- No new accounting policies adopted or changed during the year
- Major estimate in the financial statements is the estimate of the loss and loss adjustment expense reserves
- One adjustment made to record annual income tax expense of $153,472
- One adjustment waived to accrue payroll and PTO with would have resulted in a decrease in nest income of $12,772
- No internal control related findings to report

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KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2020 and 2019

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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, 2020 and 2019, 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.

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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 statutory 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, 2020 and 2019, 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, 2020 and 2019, 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 1, 2021

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

BALANCE SHEETS - STATUTORY BASIS

December 31, 2020 and 2019

Admitted Assets	2020	2019
Investments	$ 14,013,066	$ 14,875,606
Cash and cash equivalents	3,086,289	1,086,565
Premiums receivable	542,016	682,483
Accrued interest receivable	126,459	145,388
Other assets	206,171	197,975
Refundable income taxes	198,280	107,170
Property occupied not exceeding 10% of admitted assets	880,542	1,415,428
Total admitted assets	$ 19,052,823	$ 18,510,615
Liabilities and Members' Equity		
Liabilities		
Insurance reserves:		
Losses	$ 43,391	$ 341,710
Loss adjustment expenses	35,035	55,144
Unearned premiums	1,845,688	2,118,945
	1,924,114	2,515,799
Commissions payable	25,897	39,108
Accrued expenses and payables	15,923	9,129
Net deferred tax liability	192,000	112,000
	233,820	160,237
Total liabilities	2,157,934	2,676,036
Members' Equity	16,894,889	15,834,579
Total liabilities and members' equity	$ 19,052,823	$ 18,510,615

See Notes to Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

STATEMENTS OF INCOME - STATUTORY BASIS

Years Ended December 31, 2020 and 2019

	2020	2019
Premiums Earned	$ 3,895,618	$ 4,511,117
Underwriting Expenses		
Losses	1,646,473	1,676,625
Loss adjustment	730,357	804,910
Commissions	338,226	385,089
Operating expenses	1,113,683	1,191,438
Total expenses	3,828,739	4,058,062
Underwriting gain	66,879	453,055
Other Income		
Investment income	585,128	271,224
Service fees	45,690	47,879
Miscellaneous	51,373	
Income before income tax	749,070	772,158
Income tax expense	148,507	212,525
Net income	$ 600,563	$ 559,633

See Notes to Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

STATEMENTS OF CHANGES IN MEMBERS' EQUITY - STATUTORY BASIS

Years Ended December 31, 2020 and 2019

	2020	2019
Members' equity, beginning of year	$ 15,834,579	$ 19,534,045
Net income	600,563	559,633
Change in net unrealized gains and losses on investments	468,986	569,201
Change in deferred tax liability	(80,000)	(71,000)
Change in nonadmitted assets	70,761	249,973
Distribution to members		(5,007,273)
Members' equity, end of year	$ 16,894,889	$ 15,834,579

See Notes to Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

STATEMENTS OF CASH FLOWS - STATUTORY BASIS

Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Premiums collected, net of refunds	$ 3,762,828	$ 4,263,559
Underwriting and other expenses paid	(4,100,516)	(4,009,539)
Cash received under cost sharing agreement	1,589,029	1,433,204
Cash paid under cost sharing agreement	(1,563,326)	(1,628,765)
Investment and other income received	456,292	299,710
Net income taxes (paid) refunded	(250,000)	170,722
Net cash (used in) provided by operating activities	(105,693)	528,891
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,860,000	3,615,000
Purchases of investments	(528,474)	(959,838)
Proceeds from sale of property and equipment	1,658,000	
Purchases of property and equipment	(884,109)	(8,748)
Net cash provided by investing activities	2,105,417	2,646,414
Cash Flows Used In Financing Activities		
Distribution to members		(5,007,273)
Net increase (decrease) in cash and cash equivalents	1,999,724	(1,831,968)
Cash and cash equivalents at beginning of year	1,086,565	2,918,533
Cash and cash equivalents at end of year	$ 3,086,289	$ 1,086,565
Reconciliation of Net Income to Net Cash (Used in) Provided by Operating Activities		
Net income	$ 600,563	$ 559,633
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gain on sale of investments		(52,102)
Gain on sale of property and equipment	(244,828)	
Depreciation expense	76,584	288,531
Changes in assets and liabilities:		
(Increase) decrease in:		
Premiums receivable	140,467	75,082
Accrued interest receivable	18,929	32,709
Other assets	(8,196)	(197,975)
Refundable income taxes	(91,110)	348,517
Increase (decrease) in:		
Insurance reserves	(591,685)	(439,415)
Commissions payable	(13,211)	(14,085)
Accrued expenses and payables	6,794	(72,004)
Net cash (used in) provided by operating activities	$ (105,693)	$ 528,891

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.

NOTES TO FINANCIAL STATEMENTS

Statutory accounting principles is a special purpose framework that varies in some respects from accounting principles generally accepted in the United States of America (GAAP). 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.

- Nonadmitted assets, principally certain deposits, premium receivables greater than 90 days past due, furniture and equipment, and property to be occupied in excess of 10% of admitted assets, are charged directly to members' equity rather than recorded as an asset, net of any valuation allowance.

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

- Comprehensive income and its components are not presented in the statutory basis financial statements as required by GAAP.

Use of estimates:

The preparation of financial statements under statutory 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.

NOTES TO FINANCIAL STATEMENTS

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. Any receivable balances outstanding more than 90 days are considered nonadmitted assets. At December 31, 2020 and 2019, no receivable balances were in excess of 90 days past due.

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 $76,584 and $288,531 for the years ended December 31, 2020 and 2019, respectively. Depreciation expense is inclusive of depreciation related to electronic data processing equipment in the amounts of $62,271 and $249,085 for the years ended December 31, 2020 and 2019, respectively.

Nonadmitted assets:

Assets included in the financial statement are at admitted asset value. Nonadmitted assets, which are specifically designated by statutory accounting principles as assets that cannot be readily realized for the benefit of policyholders, are excluded through a direct charge to members' equity.

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 statements of income in the year in which the Association becomes aware of the need for revision.

NOTES TO FINANCIAL STATEMENTS

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.

Subsequent events:

Subsequent events have been evaluated through March 1, 2021, 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, 2020 and 2019.

NOTES TO FINANCIAL STATEMENTS

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, 2020 and 2019:

	2020	2019
Municipal bonds at amortized cost	$ 8,749,259	$10,660,540
Equity mutual funds at fair value	5,263,807	4,215,066
	$14,013,066	$14,875,606
Municipal bonds:		
Fair value	$ 8,972,372	$10,792,062
Carrying value	8,749,259	10,660,540
Excess fair value	$ 223,113	$ 131,522
Equity mutual funds (Level 1):		
Fair value	$5,263,807	$4,215,066
Cost	4,362,823	3,783,071
Unrealized gain	$ 900,984	$ 431,995

The schedule of maturities for municipal bonds at December 31, 2020 is as follows:

	Book Value	Fair Value
Due in one year or less	$ 808,293	$ 823,256
Due after one year through five years	5,680,471	5,756,816
Due after five years through ten years	2,260,495	2,392,300
	$8,749,259	$8,972,372

Proceeds from the sale of securities were $1,860,000 and $3,615,000 for the years ended December 31, 2020 and 2019, respectively. There was no gain or loss realized from these sales for the year ended December 31, 2020. Total gains realized on these sales was $52,102 for the year ended December 31, 2019.

NOTES TO FINANCIAL STATEMENTS

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, 2020 and 2019, the Association did not record any other-than-temporary impairments.

The following table summarizes securities with unrealized losses at December 31, 2020 and 2019, 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:						
2020			$56,342	$1,804,090	$56,342	$1,804,090
2019			$88,229	$3,419,211	$88,229	$3,419,211

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, 2020 and 2019 are as follows:

	2020	2019
Reserves, beginning of year	$ 396,854	$ 513,629
Incurred loss and loss adjustment expenses:		
Provision for insured events of current year	871,407	767,161
Increase in provision attributable to prior year events	1,505,423	1,714,374
Total incurred	2,376,830	2,481,535
Payments:		
Attributable to current year events	1,358,616	1,068,145
Attributable to prior year events	1,336,642	1,530,165
Total paid	2,695,258	2,598,310
Reserves, end of year	$ 78,426	$ 396,854

NOTES TO FINANCIAL STATEMENTS

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, 2020 and 2019 was $113,273 and $82,189, 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. 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, 2020 and 2019:

	2020	2019
Receivable (payable) at beginning of year	$ 195,561	$ (67,623)
Expenses allocated to related parties	1,563,326	1,628,765
Payments made to related parties		67,623
Payments received from related parties	(1,589,029)	(1,433,204)
Receivable at end of year	$ 169,858	$ 195,561

Receivables are included in other assets on the balance sheets.

NOTES TO FINANCIAL STATEMENTS

Note 6. Operating Leases

The Association leases office space to the related parties in Note 5 under operating leases through December 31, 2021. The leases have automatic renewal provisions which allow for the lease to automatically renew and extend an additional year unless either party gives written notice of intent not to renew at least 30 days prior to expiration of the term of the lease. Rental income received for the years ended December 31, 2020 and 2019 was $69,680 and $62,472, respectively, and is included in investment income on the statements of income.

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, 2020 and 2019, 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.

Note 8. Contingencies

For the years ended December 31, 2020 and 2019, 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, 2020, the Association's uninsured cash balance totaled approximately $1,108,000.

NOTES TO FINANCIAL STATEMENTS

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 $132,083 and $130,397 for the years ended December 31, 2020 and 2019, respectively.

Note 11. Contingency

On March 11, 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and significant impact on the global economy. As of December 31, 2020, economic and public health uncertainties exist which may have negative effect on the Association's future operations and cash flows. The total impact of the COVID-19 outbreak is unknown at the date the financial statements were issued. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

deming malone
livesay + ostroff

Independent Auditors' Report on Supplementary Information

To the 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, 2020 and 2019, and our report thereon dated March 1, 2021, 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 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 1, 2021

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KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

SCHEDULES OF OPERATING EXPENSES - STATUTORY BASIS

Years Ended December 31, 2020 and 2019

	2020	2019
Wages	$ 731,832	$ 700,568
Information processing fees	161,520	118,738
Health insurance	125,558	101,820
Retirement	113,273	82,189
Computer	69,603	51,259
Depreciation	64,140	252,128
Inspections	60,864	53,345
PASS contract	57,474	124,184
Payroll taxes	52,708	54,773
Bank service fees	39,086	37,824
Miscellaneous	35,855	23,728
Membership fees	33,551	40,957
Insurance	33,343	29,798
Professional fees	22,187	23,286
Taxes and licenses	15,908	22,765
Telephone and utilities	15,370	10,425
Postage and courier	14,843	10,851
Office supplies and expense	6,919	11,608
Repairs and maintenance	5,562	5,205
Actuarial fees	4,400	17,649
Travel and entertainment	4,059	11,692
Dues and subscriptions	2,468	2,365
	1,670,523	1,787,157
Less one-third attributable to loss adjustment expense	(556,840)	(595,719)
	$ 1,113,683	$ 1,191,438

deming malone livesay + ostroff

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, 2020, and have issued our report thereon dated March 1, 2021. 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 19, 2020. 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 2020. 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. This estimate is 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	$153,472

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	$12,772

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 1, 2021.

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 1, 2021

KENTUCKY FAIR PLAN				
Budget Status				
Line	**2018 Budget**	**2019 Budget**	**2020 Budget**	**2020 Final**
Accounting Fees	$ 17,108	$ 17,644	$ 19,000	$ 17,390
Actuarial Review	$ 19,008	$ 17,600	$ 9,400	$ 4,400
Allocated Wages	$ 70,610	$ 114,737	$ -	$ -
Board Meetings	$ 700	$ 700	$ 700	$ -
Bldg. Repairs & Main.	$ 35,335	$ 35,500	$ 35,320	$ 31,316
Bldg. Utilities	$ 20,132	$ 18,788	$ 16,647	$ 14,197
Building Taxes	$ 19,188	$ 18,662	$ 19,836	$ 9,996
Computer Expenses	$ 30,434	$ 57,406	$ 59,306	$ 69,603
Courier Services	$ 500	$ -	$ -	$ -
Dues & Subscriptions	$ 1,100	$ 1,284	$ 1,615	$ 2,468
Education	$ 6,191	$ 6,630	$ 2,953	$ 2,428
Filing Fees	$ 420	$ 420	$ 420	$ -
Health Insurance	$ 98,399	$ 120,985	$ 107,312	$ 125,558
Human Resources	$ 3,243	$ 6,466	$ 14,950	$ 11,818
Inspections	$ 66,460	$ 54,715	$ 51,397	$ 60,864
P&C Insurance	$ 26,085	$ 23,764	$ 23,938	$ 33,343
Legal/Professional	$ 9,000	$ 7,000	$ 7,000	$ 4,797
Meals & Entertainment.	$ 1,500	$ 1,500	$ 1,500	$ 1,060
Memb.Fees - PIPSO/ISO	$ 40,751	$ 41,392	$ 41,132	$ 33,551
Miscellaneous	$ 1,000	$ 1,000	$ 1,200	$ 1,209
Office Equipment	$ 2,400	$ 2,400	$ 2,400	$ 2,672
Office Supplies	$ 7,676	$ 5,000	$ 5,000	$ 4,240
Payroll Fees	$ 5,439	$ 5,511	$ 5,343	$ 4,131
Payroll Tax	$ 60,755	$ 74,618	$ 72,347	$ 52,708
Retirement Savings Plan	$ 120,783	$ 104,681	$ 117,203	$ 113,273
Postage	$ 15,608	$ 11,622	$ 9,475	$ 14,843
Printing	$ 3,402	$ 3,420	$ 2,380	$ 7
Processing	$ 166,590	$ 130,222	$ 171,481	$ 161,520
Repairs and Maintenance	$ 5,928	$ 5,268	$ 4,845	$ 5,562
Systems/PASS	$ 150,560	$ 128,969	$ 80,000	$ 57,474
Telephone	$ 9,142	$ 9,140	$ 10,940	$ 15,370
Travel	$ 11,669	$ 8,519	$ 9,250	$ 2,999
Wages (Non Allocated)	$ 665,809	$ 631,443	$ 723,474	$ 645,224
Total	**$ 1,692,925**	**$ 1,667,006**	**$ 1,627,764**	**$ 1,504,021**

KENTUCKY FAIR PLAN

PIPSO SEMI-ANNUAL REPORT
OF PROPERTY INSURANCE PLAN COVERAGE

Line #	Description	YEAR-TO-DATE DATA DATES REPORTED 01/01/21 to 03/31/21
	NEW BUSINESS	
1	Number of applications accepted	278
2	Number of inspections completed	278
3	Number of new policies issued	278
	RENEWAL BUSINESS	
4	Number of requests for renewals	1,507
5	Number of renewals inspected	283
6	Number of renewal policies issued	1,507
	RESULTS BY CLASS OF BUSINESS	
	Number of policies issued (new & renewal)	
7	Habitational	1,720
8	Commercial	65
	Total Premium Written (000)	
9	Habitational	833
10	Commercial	43
	Total exposure (000)	
11	Habitational	314,041
12	Commercial	13,380
	LOSSES BY CLASS OF BUSINESS	
	Number of Losses Reported	
13	Habitational	55
14	Commercial	0
	Number of Losses Paid	
15	Habitational	18
16	Commercial	0
	Total Paid Losses (000)	
17	Habitational	231
18	Commercial	0
	Total Outstanding Losses - Case Basis (000)	
19	Habitational	141
20	Commercial	0

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
	Keith Howard	Hanover Insurance
	Steve Simkims	State Farm
	Mark Hillis – Executive Director	Kentucky FAIR Plan
Audit Committee	Carrie Schaaf	Kentucky Farm Bureau
	Steve Simkims	State Farm
	John Miner	Kentucky National Insurance Company
	Tina Faleide	Kentucky FAIR Plan
Products and Forms Committee	Kristen Mellinger	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Jay Kepperling	Nationwide
	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
	Russ Thornton	Kentucky FAIR Plan
KAIP Compensation and Benefits	Lisa Pierce	Allstate Insurance Co.