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 Wednesday, June 4, 2025, at the Plan office located at 327 Townepark Circle, Louisville, KY 40243.

Agenda:

1. Roll Call
2. Anti-Trust Preamble Reminder
3. Approval of Minutes
    - KY FAIR Plan Fall GC Meeting 10/23/2024
    - Products and Forms Meeting 03/26/2025
    - Investment Meeting 04/10/2025
    - Audit Meeting 04/23/2025
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 participate 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
GOVERNING COMMITTEE

Governing Committee Member	Affiliation
Rudy Schlich (Chair) Old Kentucky Insurance 915 Lily Creek Road Louisville, KY 40243 (502) 451-8800 Rudy.Schlich@oldkyins.com	Agent (d)
Todd Feltman (Vice-Chair) State Farm Insurance Co. 1 State Farm Plaza, D-1 Bloomington, IL 61710 (309) 763-5792 todd.feltman.c0hu@statefarm.com	Non Affiliated (b)
David Combs Kentucky National Insurance 2416 Sir Barton Way Lexington, KY 40509 (859) 519-1054 dacombs@kynat.com	Domiciled (a)
Lisa Pierce Allstate Insurance Company 555 Marriott Drive, Suite 700 Nashville, TN 37214 (615) 902-7053 Lisa.pierce@allstate.com	APCIA –Affiliated (c)
Kristen K.W. Mellinger Kentucky Farm Bureau Mutual Insurance Co. 9201 Bunsen Parkway Louisville, KY 40220 (502) 495-5000 x 7499 Kristen.Mellinger@kyfb.com	Domiciled (a)
Dawn Whalen Travelers Insurance Company 303 N. Hurstbourne Parkway Suite 150 Louisville, KY 40222 (502) 468-2903 dmwhalen@travelers.com	APCIA –Affiliated (c)
Jay Kepperling Nationwide Mutual Insurance Company 1 Nationwide Plaza Columbus, OH 43215 502-645-9562 jay1@nationwide.com	NAMIC (c)

Kentucky Department of Insurance Representative and Kentucky FAIR Plan Staff

Shawn D. Boggs, APIR Deputy Commissioner 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	

ANTITRUST PREAMBLE

Kentucky FAIR Plan Reinsurance Association

This statement applies to the members of the Kentucky FAIR Plan Reinsurance Association Governing Committee and Kentucky FAIR Plan Reinsurance Association Staff.

Antitrust laws aim to protect the public from agreements among insurance competitors that affect the price or distribution of products. Also, the laws aim to promote fair and vigorous competition in the insurance marketplace.

The agenda and discussion items for each meeting are limited to matters of the Kentucky FAIR Plan Reinsurance Association, and attendees shall not discuss business interests of their individual insurer members. Each Governing Committee member and/or officer shall not discuss competitive information of any insurer member.

It is the policy of the Governing Committee members of the Kentucky FAIR Plan Reinsurance Association to fully comply with applicable federal and state antitrust law. These laws apply to member conduct at all Governing Committee meetings, sub-committee meetings, other adjunct meetings, coffee breaks, meals, social gatherings, and informal conversations. This includes, but is not limited to:

- Raising, lowering or stabilizing rates;
- Actual current or future rates, including actuarial projections and capacity;
- Profit levels or actual costs;
- Credit terms and other price-related terms;
- Allocation of markets, territories, or potential insureds;
- Individual company results, or current or future marketing or pricing strategies or business plans;
- Joint action on pricing, products, markets or innovation;
- Whether to quote or not to quote certain classes or types of risks or products;
- Restrictions on availability of insurance;
- Use of standard forms;
- Any other matters on which insurers ordinarily compete with each other.

It is the responsibility of all Governing Committee members and Kentucky FAIR Plan Reinsurance Association staff to comply with the antitrust laws. Violation of antitrust laws can lead to serious civil and criminal punishment. Check with legal counsel with any questions.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
GOVERNING COMMITTEE MEETING

A Governing Committee meeting of the Kentucky FAIR Plan was held at 10:30 AM on October 23, 2024, at 327 Townepark Circle, Louisville, KY 40243.

Those present:

Governing Committee:

Rudy Schlich	(Chair)	Old Kentucky Insurance
Todd Feltman	(Vice Chair)	State Farm Insurance Co.
Kristen Mellinger		Kentucky Farm Bureau Ins. Co.
Jay Kepperling		Nationwide Mutual Insurance Co.
David Combs		Kentucky National
Lisa Pierce		Allstate Insurance Co
Dawn Whalen		Travelers Insurance

Staff:

Mark Hillis	FAIR Plan Alliance
Melissa Chlon	FAIR Plan Alliance
Erin Lux	FAIR Plan Alliance
Tina Faleide	FAIR Plan Alliance

1. Call to Order and Roll Call:

Mr. Schlich introduced the attendees and thanked the Governing Committee for their attendance and support of the Plans and the Commonwealth of Kentucky.

Mr. Schlich called the meeting to order, took roll call, and noted that a quorum was present.

2. Antitrust Preamble:

Mr. Schlich reminded everyone that the Committee is bound by the Anti-Trust Preamble that was provided in the meeting documents.

3. Approval of Minutes:

The Committee reviewed Minutes of the June 5, 2024 Governing Committee Meeting, August 2024 Claims Committee Meeting, August 2024 Underwriting Committee Meeting, September 17, 2024 Reinsurance and Equity Committee Meeting, and the October 16, 2024 Investment Committee Meeting which were distributed and included with the meeting documents. Mr. Feltman moved, and Mr. Combs seconded to approve the Minutes. The motion carried and the Minutes of the Committee Meetings noted above were approved as presented.

4. Committee Reports:

Claims Audit Committee Report:

Ms. Lux thanked the industry professionals who conduct both Claims and Underwriting audits for the FAIR Plan. Their dedication to excellence, and to the industry, is evident in their efforts each year. The Kentucky Claims Committee met in August 2024, along with the Illinois Claims

Committee, as both states are handled by the FAIR Plan Alliance. The results of the claims audit were positive with no major deficiencies identified. Ms. Lux further noted that the claim files were handled timely, well documented, and presented overall good quality. The Plan offers audit services to all states for which the Alliance is involved in claims.

Underwriting Audit Committee Report:

Ms. Lux presented the results of the audit conducted by the members of the Underwriting Committee in August 2024. The findings were excellent with no major deficiencies identified. Ms. Lux further noted that underwriting files were thoroughly documented and well organized and that underwriting decisions were made in accordance with the Underwriting Manuals.

Mr. Feltman expressed gratitude for the hard work of both claims and underwriting staff of the Alliance, noting the excellent handling of the day-to-day work and outcome of the audits this year.

Reinsurance and Equity Committee Report:

Mr. Hillis advised that a meeting was held on September 17, 2024 to review the reinsurance renewal and the Plan's equity position. He reminded the Committee that the purpose of purchasing a limited reinsurance layer is to protect members' equity against the possibility of catastrophic events. Mr. Hillis noted that the reinsurance position moved from $5m xs $2m to $5m xs $1.5m which greater reflected the modelling retention needs of the Plan. This also allows members equity to remain protected from an earthquake or other major event and ensures the Plan is not a burden to the industry during catastrophic times.

Mr. Hillis shared that a few factors went into the challenges faced this year to include market hardening, reinsurers exiting the market, and weather. The team at Guy Carpenter was persistent and secured placement for the Plans for the upcoming term.

Mr. Hillis recognized the efforts of Guy Carpenter, noting the offer to model and present data to similarly sized Plans. There may be potential for future grouping of these Plans if a cost benefit is seen for severe convective storm cover.

Investment Committee Report:

Ms. Faleide reported that the Investment Committee met on October 16, 2024 during which, a review of current bank balances and market trends were discussed. Committee members shared reviews on both the investment policy and analysis, noting that the Plan had a good portfolio and there were no concerns with the current status. Ms. Faleide noted that Don McConnell from Kentucky Farm Bureau joined this year and his work and review of the Investment Concepts and Funds Management Policy and the Plans investments was greatly appreciated.

5. Executive Director's Report:

Ms. Lux presented a status report for 2024 results and year-end projections. New business applications are projected to end the year at 780, up from 2023 new applications at 662. The

Written Premium for year end 2023 was $2,473,766 and is projected to end at just over $2.6M for 2024, an increase of just over 5%. Ms. Lux shared that the loss ratio and loss adjustment expense ratio have remained relatively stable, with an uptick in 2023 based on claims activity, then a stabilization in 2024. Similar results with the operating expense ratio, currently at 37.72% through Q2 2024. Ms. Lux shared that the number of claims reported is far fewer than last year with projected volume expected to be lower than the past few years. Wind continues to drive our volume.

Mr. Feltman asked if there had been a significant volume of claims as a result of Hurricane Helene. Ms. Lux confirmed there had not been.

Mr. Hillis shared the current bank balances with Republic Bank and noted the balance of the Members Equity account.

6. Budget:

Mr. Hillis indicated the Plan is on track to end 2024 under budget. The 2025 health insurance rates are not available yet; however, an increase was included in the budget. Mr. Hillis further noted that the Plan does not provide a traditional pension but continued to provide for a Defined Contribution Plan.

A budget in the amount of $1,872,805 is proposed for 2025. The Plan is operating at a very efficient level with an expected offset of approximately $440,000 from Alliance billing in 2025. Mr. Hillis pointed out a few specific areas of the budget to include the increase in computer expenses, processing and wages. A discussion was held and Mr. Hillis shared details of the planned penetration IT security testing in 2025, new third party vendor relationships also tied to prudent security, and wages that will be significantly off set by Alliance billing as the staff is needed to support same.

Ms. Pierce asked if Alliance billing rates included more than just the salary component and Mr. Hillis explained that when determining the billing rates, salary, fixed asset costs, benefits and other components are considered to make sure that the Alliance is fully reimbursed. He further shared the 2025 Alliance hourly rates for services offered.

Mr. Schlich moved, and Mr. Feltman seconded, and the motion carried, to approve the 2025 budget as presented.

7. Other Business:

Alliance Update

Mr. Hillis noted the current members of the FAIR Plan Cost Sharing Alliance. He provided details about the type of work and services being provided to each of the member Plans. Mr. Hillis explained that he reaches out to each Plan Manager every year for feedback and has gotten overwhelmingly positive responses each time.

Committee Assignments:

Mr. Schlich advised that updated Committee assignments were included in the meeting materials. He asked for questions regarding the assignments and there were none.

Next meeting:

Mr. Schlich noted that the Spring Meeting will be held on Wednesday, June 4, 2025, and the Fall Meeting will take place on Wednesday October 22, 2025.

8. Adjournment:

There being no other business, Mr. Feltman moved, Mr. Combs seconded, and the Committee agreed to adjourn the meeting.

Respectfully Submitted,

Erin Lux
Associate Plans Manager

Kentucky FAIR Plan Reinsurance Association

Products And Forms Committee Meeting

Pursuant to notice, a meeting was held at 11:30 AM on March 26, 2025.

Present for the meeting:

Kristen Mellinger	Kentucky Farm Bureau
Rudy Schlich	Old Kentucky Insurance
Jay Kepperling	Nationwide Insurance
Mark Hillis	Kentucky FAIR Plan
Erin Lux	Kentucky FAIR Plan

1. **Call to Order:**
Ms. Lux called the meeting to order and confirmed all members were present.

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

3. **Review of Minutes:**
Ms. Lux confirmed that all Product and Forms Committee members had received a copy of the minutes of the April 17, 2024, meeting. The minutes were previously approved by the full Governing Committee during the 2024 Spring Meeting.

4. **Report of the Plan Manager:**
Ms. Lux reminded this Committee that the task at hand is ensuring the Plans are offering necessary forms and products to meet residual market needs. The current policies offered and reflected in the Articles of Association are noted below:

    - DP1 and DP2 – represents over 85% of all FAIR Plan policies
    - HO2, HO4, HO6, HO8 – represents 10%
    - Commercial Fire – represents under 3%
    - Farm Property – represents under 2%

    Ms. Lux then shared that the FAIR Plan had 3,539 policies in force at the end of 2024, 6.2% lower than policies in force at the end of 2023. She explained that the largest book of business is Dwelling Fire which aligns with the FAIR Plan mission of providing basic coverage. Ms. Lux noted that we get requests for homeowner policies, however our underwriting procedures are restrictive of the broad form and frequently defer to dwelling policies thus maintaining our mission of basic coverage.

    Ms. Lux noted that the Plan had received a single inquiry from the Department of Insurance in December 2024, about churches, specifically that the Governor's Office had concerns regarding churches finding coverage for their property. Ms. Lux confirmed that the FAIR Plan does offer commercial property policies to churches. She has since been in contact with the Department again in January to assure them that the Plan has not received any additional applications from churches or religious institutions. Beyond that single inquiry, the Plan has not had any inquiries over the past year from individuals seeking coverage which was not already offered by the Plan.

Ms. Lux requested an update from Mr. Schlich, and he confirmed that even with challenges, the standard market is able to meet most, if not all, the insurance needs of Kentucky. Similar comments were made by both Ms. Mellinger and Mr. Kepperling.

Ms. Lux shared that written premium had a nominal increase from 2023 to year-end 2024 of 3%, ending at $2,551,493 compared to $2,473,766 in 2023.

A discussion was held about Plan deductibles as there are a small number of policies with a $250 deductible in place. This committee discussed the potential to remove this option to keep the Plan aligned with appropriate rate structures as well as standard industry practices, where possible. Concern was expressed about the cost implications to consumers, and it was noted that removal of the $250 deductible option will only impact approximately 50 policies, many of which are commercial. After the discussion, Mr. Schlich motioned to remove the $250 deductible option at policy renewals, according to KRS Chapter 304.35 and the FAIR Plan Articles of Association, in correlation with the upcoming actuarial rate review and subsequent rate action. Ms. Mellinger seconded the motion. Mr. Kepperling agreed, and the motion passed.

Mr. Hillis shared a current project underway within the Plan to review policy forms, manuals, and process documents. This project is designed to organize materials, stay current with policy forms, update manuals as needed, and teach newer associates of the Plan on how the process works.

Mr. Hillis also noted new legislation in Kentucky that has opened the door for auto dealers to seek coverage from surplus line carriers, effectively setting a precedent for possible potential changes for the future of the FAIR Plan.

5. **Other Business:**

Ms. Lux asked the Committee if there was any other business to discuss and none was noted. The committee was reminded of the upcoming Governing Committee meeting scheduled for June 4, 2025.

6. **Adjournment:**
There being no further business, the meeting was adjourned by unanimous consent.

Respectfully submitted,

Erin Lux
Vice President of Operations
FAIR Plan Alliance

Kentucky FAIR Plan Reinsurance Association

Finance and Investment Committee Meeting

Pursuant to notice, a meeting was held at 11:30 AM on April 10, 2025.

Present for the meeting:

Rudy Schlich	Old Kentucky Insurance
Lisa Pierce	Allstate Insurance Company
Jon Simon	Kentucky Farm Bureau
Liam O'Brien	Kentucky Farm Bureau
Chuck McCurdy	Cerity Partners, LLC
Ryan Burch	Cerity Partners, LLC
Mark Hillis	Kentucky FAIR Plan
Melissa Chlon	Kentucky FAIR Plan
Erin Lux	Kentucky FAIR Plan
Tina Faleide, CPA	Kentucky FAIR Plan

1. Call to Order:

Mr. Hillis called the meeting to order and confirmed all members were present.

2. Anti-Trust Preamble:

Mr. Hillis reminded the committee that all members are bound by the anti-trust preamble.

3. Review of Minutes:

Mr. Hillis confirmed that all Committee members had received a copy of the minutes of the October 16, 2024, meeting. Those minutes had been approved by the full Governing Committee during its Fall Meeting.

4. Report of the Plan:

Ms. Faleide provided a report detailing the change in written premium up just over 3% and assets up nearly 2%. There is an increase in liabilities of 22% at year end due mostly to increased loss reserves, namely a large commercial loss reserve set at $280,000 at year end. The result is an unchanged member equity holding steady at $15.5 million. She also shared loss, expense and combined ratio results. The loss and LAE ratio decreased from 112.68% in 2023 to 77.86% in 2024, as the 2023 weather events had adversely affected 2023 ratios. Overall, the combined ratio decreased from 166.87% in 2023 to 135.90% in 2024.

Ms. Faleide stated the Republic Bank and ICS accounts reflected a total of just over $920,000 as of March 31, 2025.

Mr. Hillis noted that the Plan is continuing to see signs of some general market hardening with slight increases in applications as well as the written premium increase. The Plan continues to proactively work to keep the Commissioner's office informed of market trends.

Mr. Hillis also reminded the Committee that the Kentucky FAIR Plan has continued to provide services to other FAIR Plans via the FAIR Plan Cost Sharing Alliance. The Alliance operates as an LLC, sourcing services to all Kentucky Plans as well as Alliance states through Alliance employees. It is the mission of the Alliance to efficiently and effectively run different aspects of Plans to the save the industry money.

There has been a slight change to how employee-related expenses are recorded. After conferring with DMLO in our annual financial statement audit, it was determined the best presentation of employee-related expense is for it to remain on the Alliance books.

In addition, the revenue billed out to the Kentucky Plans as well as the Alliance states is recorded on the Alliance along with the employee-related expenses attributable to Kentucky Plans. This is allocated out to each Kentucky Plan based on business needs and simply shown as 'Contract Services' on their respective budgets. The total amount of the budget is unchanged as this new title includes the previously-approved budget amounts and titles of Wages, Payroll Taxes, Retirement and Health Benefits. This change was recently communicated to all Kentucky Plan board members following the completion of our financial statement audits.

5. <u>Report of the Investment Managers</u>

Mr. McCurdy thanked the Committee for their partnership and referenced the materials provided to the group in advance of the meeting.

After providing a general state of the market involving discussion of projected rate cuts, job creation and inflation, Mr. McCurdy turned the presentation over to Mr. Burke for a review of adherence to the Investment Policy. As usual, some of the maximum concentrations of single positions may be approaching their limits, but the account currently meets the requirements set forth in the Investment Policy Statement. Concentration limits of concern are remedied by fund rebalancing as needed.

A general discussion took place concerning investment in taxable vs. tax-exempt bonds. The inquiry of the bond types was brought by Mr. Simon during a recent visit of Mr. Hillis and Ms. Faleide to meet Mr. Simon at Kentucky Farm Bureau. It was further discussed that the Kentucky FAIR Plan currently has a $1.7 million net operating loss carryforward for federal tax purposes. Therefore, with the tax implications not of concern, the door was opened to begin the discussion of investing in other types of taxable bonds in the future.

No decision was made at this time to change the Investment Policy or otherwise. Mr. Hillis noted that he would work with Mr. McCurdy on some update language that he would then review with Mr. Simon to request the approval of the Investment Committee for changes to the Investment Policy Statement. Mr. Hillis did share that at a point in the past, taxable bonds were cleansed from the portfolio yielding the account now being heavily invested in tax-exempt bonds. That action was a result of the mindset of the committee at that time and not a restriction of the Investment Policy. It was determined that the best course of action forward is to keep Cerity Partners in the loop regarding our tax situation so that informed decisions can be made appropriately.

Mr. Hillis thanked Mr. Simon for his thorough review and information as the Plan continues to value the input of our industry leaders.

6. Other Business

Mr. Hillis asked the Committee if there was any other business to discuss and none was noted. The committee was reminded of the upcoming Governing Committee meeting scheduled for June 4, 2025.

7. Adjournment

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

Respectfully submitted,

Christine M Faleide

Tina Faleide
Director of Finance and Investments
FAIR Plan Alliance

Kentucky FAIR Plan Reinsurance Association

Audit Committee Meeting

Pursuant to notice, a meeting was held at 9:30 AM on April 23, 2025, by teleconference.

Present for the meeting:

Marcus Bickwermert	Kentucky Farm Bureau
Todd Feltman	State Farm Insurance
Dawn Whalen	Travelers Insurance Company
Mark Hillis	Kentucky FAIR Plan
Melissa Chlon	Kentucky FAIR Plan
Erin Lux	Kentucky FAIR Plan
Tina Faleide, CPA	Kentucky FAIR Plan

1. Call to Order:

Ms. Faleide called the meeting to order and confirmed all members were present.

2. Anti-Trust Preamble:

Ms. Faleide reminded the committee that all members are bound by the anti-trust preamble.

3. Review of Minutes:

Ms. Faleide confirmed that all Audit Committee members had received a copy of the minutes of the April 17, 2024, meeting. The minutes were previously approved by the full Governing Committee during the 2024 Spring Meeting.

4. Report of the Plan:

Ms. Faleide reviewed the audit findings and also reminded the Committee that the Kentucky FAIR Plan has continued to provide services to other FAIR Plans via the FAIR Plan Cost Sharing Alliance. The Alliance operates as an LLC, sourcing services to all Kentucky Plans as well as Alliance states through Alliance employees. It is the mission of the Alliance to efficiently and effectively run different aspects of Plans to the save the industry money.

There has been a slight change to how employee-related expenses are recorded. After conferring with DMLO in our annual financial statement audit, it was determined the best presentation of employee-related expense is for it to remain on the Alliance books. In addition, the revenue billed out to the Kentucky Plans as well as the Alliance states is recorded on the Alliance. The employee-related expenses attributable to Kentucky Plans is allocated out to each Kentucky Plan based on business needs and simply shown as 'Contract Services' on their respective budgets. The total amount of the budget is unchanged as this new title includes the previously-approved budget amounts and titles of Wages, Payroll Taxes, Retirement and Health Benefits. Remaining employee-related expenses stay on the Alliance as operating expense.

After general discussion, the committee agreed that the quality of the documentation produced by DMLO was of a high standard. Ms. Faleide noted an unmodified opinion on the Statutory Basis of Accounting. Even though an adverse opinion was issued based on Generally Accepted Accounting Principles, this is to be expected since the Plan follows Statutory (non-GAAP) Accounting.

Ms. Faleide shared 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 2025. Ms. Faleide reminded the Committee of 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, Mr. Feltman made a motion to continue the engagement of DMLO for auditing services in 2026. Ms. Whalen seconded, and the motion carried.

5. <u>Other Business</u>

Ms. Faleide asked the Committee if there was any other business to discuss and none was noted. The committee was reminded of the upcoming Governing Committee meeting scheduled for June 4, 2025.

6. <u>Adjournment</u>

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

Respectfully submitted,

Christine M Faleide

Tina Faleide
Director of Finance and Investments
FAIR Plan Alliance

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KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION
Year Ended December 31, 2024

Financial Highlights	**12/31/2024**	**12/31/2023**
Investments	$ 12,951,516	$ 13,471,441
Cash and cash equivalents	$ 2,394,448	$ 1,866,390
Premiums receivable	$ 370,781	$ 362,658
Property occupied	$ 1,096,561	$ 1,077,270
Total admitted assets	$ 17,590,022	$ 17,253,153
Insurance reserves	$ 1,957,633	$ 1,544,552
Total liabilities	$ 2,080,129	$ 1,699,154
Members' equity	$ 15,509,893	$ 15,553,999
Premiums earned	$ 2,264,478	$ 2,390,684
Change in premiums earned	-5.3%	
Underwriting expenses	$ 3,112,777	$ 4,183,634
Change in underwriting expenses	-25.6%	
Investment income	$ 729,711	$ 411,881
Net service provider income	$ 170,276	$ 248,477
Net income (loss)	$ 77,614	$ (1,105,300)
Net cash flow from operations	$ (171,615)	$ (1,189,081)
Change in cash	$ 528,058	$ (383,099)

Comments

- Financial statements are prepared on the statutory basis of accounting as prescribed or permitted by the Commonwealth of Kentucky Department of Insurance
- No new accounting policies adopted or changed during the year
- Major estimate in the financial statements is the estimate for the loss and loss adjustment expense reserves
- No internal control related findings to report
- Adjustment related to allocation of Alliance profits

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

We have audited the consolidated financial statements of Kentucky FAIR Plan Reinsurance Association (Association) for the year ended December 31, 2024, and have issued our report thereon dated March 3, 2025. 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 December 4, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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 consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2024. 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 consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated 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 consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated 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 consolidated financial statement users. The most sensitive disclosures affecting the consolidated financial statements were:

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

The disclosure of liability of loss and loss adjustment expenses in Note 3 to the consolidated 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. Management has corrected all such misstatements. The following adjustments were corrected by management:

	Change in Net Income
Association:	
Adjust accounts payable	$ 76,422
Alliance:	
Adjust receivables	$170,197

The schedule below summarizes an uncorrected adjustment of the consolidated financial statements. Management has determined that its effect is immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

	Change in Net Income
Net impact of PTO and payroll accrual	$(12,962)

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated 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 3, 2025.

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 consolidated 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.

During our audit procedures, we noted allocations of FAIR Plan Cost Sharing Alliance, LLC's (Alliance) profits were used to reduce the amount of reimbursements made to the Alliance under the cost sharing agreements. We discussed the tax and accounting implications of this process with management. As a result of our discussions, it was determined that the reduction of reimbursements will be paid to the Alliance in 2025.

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 consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated 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 3, 2025

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2024 and 2023

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Independent Auditors' Report

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

Opinions

We have audited the accompanying consolidated financial statements of Kentucky FAIR Plan Reinsurance Association (Association), which comprise the consolidated balance sheets – statutory basis as of December 31, 2024 and 2023, and the related consolidated 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 consolidated financial statements.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated balance sheets of Kentucky FAIR Plan Reinsurance Association as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended, in accordance with the financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance as described in Note 1.

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 section of our report, the consolidated 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, 2024 and 2023, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Kentucky FAIR Plan Reinsurance Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinion on the statutory basis of accounting and our adverse opinion on U.S. generally accepted accounting principles.

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

As described in Note 1, the consolidated financial statements are prepared by Kentucky FAIR Plan Reinsurance Association on the basis of 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 consolidated 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 and pervasive.

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Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting provisions prescribed or permitted by the Commonwealth of Kentucky Department of Insurance, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky FAIR Plan Reinsurance Association's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kentucky FAIR Plan Reinsurance Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky FAIR Plan Reinsurance Association's ability to continue as a going concern for a reasonable period of time.

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

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
March 3, 2025

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

CONSOLIDATED BALANCE SHEETS - STATUTORY BASIS

December 31, 2024 and 2023

Admitted Assets	2024	2023
Investments	$ 12,951,516	$ 13,471,441
Cash and cash equivalents	2,394,448	1,866,390
Premiums receivable	370,781	362,658
Accrued interest receivable	101,861	101,797
Other assets	560,175	221,877
Refundable income taxes	114,680	151,720
Property occupied not exceeding 10% of admitted assets	1,096,561	1,077,270
Total admitted assets	$ 17,590,022	$ 17,253,153
Liabilities and Members' Equity		
Liabilities		
Insurance reserves:		
Losses	$ 536,469	$ 226,066
Loss adjustment expenses	139,580	97,766
Unearned premiums	1,281,584	1,220,720
	1,957,633	1,544,552
Commissions payable	26,715	25,836
Accrued expenses and payables	40,181	39,166
Deferred tax liability	55,600	89,600
	122,496	154,602
Total liabilities	2,080,129	1,699,154
Members' Equity	15,509,893	15,553,999
Total liabilities and members' equity	$ 17,590,022	$ 17,253,153

See Notes to Consolidated Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

CONSOLIDATED STATEMENTS OF INCOME - STATUTORY BASIS
Years Ended December 31, 2024 and 2023

	2024	2023
Premiums Earned	$ 2,264,478	$ 2,390,684
Underwriting Expenses		
Losses	1,004,893	1,782,111
Loss adjustment	758,278	911,763
Commissions	125,506	121,599
Operating expenses	1,224,100	1,368,161
Total underwriting expenses	3,112,777	4,183,634
Underwriting loss	(848,299)	(1,792,950)
Other Income (Expense)		
Investment income	729,711	411,881
Installment fees	25,926	27,292
Service provider income	1,990,306	248,477
Service provider operating expenses	(1,820,030)	
Net income (loss)	$ 77,614	$ (1,105,300)

See Notes to Consolidated Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY - STATUTORY BASIS

Years Ended December 31, 2024 and 2023

	2024	2023
Members' equity, beginning of year	$ 15,553,999	$ 16,210,700
Net income (loss)	77,614	(1,105,300)
Change in net unrealized gains and losses on investments	(158,376)	581,270
Change in deferred taxes	34,000	(123,600)
Change in nonadmitted assets	2,656	(9,071)
Members' equity, end of year	$ 15,509,893	$ 15,553,999

See Notes to Consolidated Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

CONSOLIDATED STATEMENTS OF CASH FLOWS - STATUTORY BASIS

Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Premiums collected	$ 2,317,219	$ 2,318,024
Underwriting expenses paid	(2,755,938)	(4,199,566)
Cash received under service agreements	2,441,663	1,297,127
Cash paid under service agreements	(2,607,024)	(1,066,570)
Investment and other income received	395,425	461,904
Income taxes refunded	37,040	
Net cash used in operating activities	(171,615)	(1,189,081)
Cash Flows from Investing Activities		
Proceeds from sale of investments	7,538,347	1,530,000
Purchases of investments	(6,784,030)	(584,927)
Purchases of property and equipment	(54,644)	(139,091)
Net cash provided by investing activities	699,673	805,982
Net change in cash and cash equivalents	528,058	(383,099)
Cash and cash equivalents at beginning of year	1,866,390	2,249,489
Cash and cash equivalents at end of year	$ 2,394,448	$ 1,866,390
Reconciliation of Net Income (Loss) to Net Cash Used in Operating Activities		
Net income (loss)	$ 77,614	$ (1,105,300)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation expense	38,009	34,854
Realized gain on investments	(392,768)	(14,612)
Changes in assets and liabilities:		
(Increase) decrease in:		
Premiums receivable	(8,123)	27,174
Accrued interest receivable	(64)	8,610
Other assets	(338,298)	(27,132)
Refundable income taxes	37,040	
Increase (decrease) in:		
Insurance reserves	413,081	(117,238)
Commissions payable	879	(530)
Accrued expenses and payables	1,015	5,093
Net cash used in operating activities	$ (171,615)	$ (1,189,081)

See Notes to Consolidated Financial Statements.

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

NOTES TO CONSOLIDATED 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.

During 2023, the Association formed FAIR Plan Cost Sharing Alliance, LLC (Alliance). The Association is the sole member of the Alliance. The Alliance acts as a service provider to FAIR Plans in various states and focuses on providing high quality services for FAIR Plans at the lowest possible cost removing duplications in costs associated with various components of FAIR Plan insurance operations. During 2023, this activity was conducted by the Association under an alliance agreement (see Note 10). Effective January 2024, this activity is conducted under the Alliance.

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 consolidated financial statements. The consolidated financial statements and notes are representations of the Association's management who is responsible for the integrity and objectivity of the consolidated 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 consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Principles of consolidation:

The consolidated financial statements include the accounts of Kentucky FAIR Plan Reinsurance Association and FAIR Plan Cost Sharing Alliance, LLC. All intercompany balances and transactions have been eliminated in consolidation.

Basis of accounting:

The Association prepares its consolidated 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 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. Also, there is no allowance for credit losses.
- Comprehensive income and its components are not presented in the statutory basis consolidated financial statements as required by GAAP.

Use of estimates:

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Any receivable balances outstanding more than 90 days are considered nonadmitted assets. At December 31, 2024 and 2023, 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 $38,009 and $34,854 for the years ended December 31, 2024 and 2023, respectively.

Nonadmitted assets:

Assets included in the consolidated financial statements 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 consolidated statements 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.

Subsequent events:

Subsequent events have been evaluated through March 3, 2025, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2024 and 2023.

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, 2024 and 2023:

	2024	2023
Municipal bonds at amortized cost	$ 8,437,497	$ 8,097,938
Equity mutual funds at fair value	4,514,019	5,373,503
	$12,951,516	$13,471,441
Municipal bonds:		
Fair value	$ 8,218,177	$ 7,967,084
Carrying value	8,437,497	8,097,938
Excess carrying value	$ (219,320)	$ (130,854)
Equity mutual funds (Level 1):		
Fair value	$4,514,019	$5,373,503
Cost	4,280,844	4,981,952
Unrealized gain	$ 233,175	$ 391,551

The schedule of maturities for municipal bonds at December 31, 2024 is as follows:

	Book Value	Fair Value
Due in one year or less	$ 596,824	$ 589,993
Due after one year through five years	4,553,226	4,419,120
Due after five years through ten years	3,287,447	3,209,064
	$8,437,497	$8,218,177

Proceeds from the sale of securities were $7,538,347 and $1,530,000 for the years ended December 31, 2024 and 2023, respectively. Gains realized from these sales were $392,768 and $14,612 for the years ended December 31, 2024 and 2023, respectively.

NOTES TO CONSOLIDATED 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, 2024 and 2023, the Association did not record any other-than-temporary impairments.

The following table summarizes securities with unrealized losses at December 31, 2024 and 2023, 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:						
2024	$(95,323)	$3,794,307	$(132,665)	$3,549,907	$(227,988)	$7,344,214
2023			$(159,603)	$4,652,058	$(159,603)	$4,652,008

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, 2024 and 2023 are as follows:

	2024	2023
Reserves, beginning of year	$ 323,832	$ 341,236
Incurred loss and loss adjustment expenses:		
Provision for insured events of current year	843,910	1,023,268
Increase in provision attributable to prior year events	941,669	1,670,606
Total incurred	1,785,579	2,693,874
Payments:		
Attributable to current year events	910,262	1,408,213
Attributable to prior year events	523,100	1,303,065
Total paid	1,433,362	2,711,278
Reserves, end of year	$ 676,049	$ 323,832

NOTES TO CONSOLIDATED 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 underwriting expense for these plans for the years ended December 31, 2024 and 2023 was $145,146 and $162,281, respectively. Total service provider expense for these plans for the year ended December 31, 2024 was $165,466.

Note 5. Related Party Transactions

Kentucky Automobile Insurance Plan, Kentucky Insurance Arbitration Association, and Kentucky Assigned Claims Plan are related organizations under a cost sharing agreement. The Association and Alliance furnish personnel and general and administrative support for the above entities and allocate charges to each.

Following is a summary of the transactions and balances under the cost sharing agreements for the years ended December 31, 2024 and 2023:

	2024	2023
Receivable at beginning of year	$ 139,161	$ 119,098
Expenses allocated to related parties	1,698,254	1,064,009
Payments received from related parties	(1,450,707)	(1,043,946)
Receivable at end of year	$ 386,708	$ 139,161

Receivables are included in other assets on the consolidated balance sheets.

Note 6. Operating Leases

The Association leases office space to the entities in Note 5 under operating leases expiring December 31, 2025. 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 each of the years ended December 31, 2024 and 2023 was $28,800 and $31,733, respectively, and is included in investment income on the consolidated statements of income.

NOTES TO CONSOLDIATED FINANCIAL STATEMENTS

Note 7. Income Taxes

The Association files Form 1120-PC with the Internal Revenue Service. The provision for income taxes consists of federal income taxes currently due or refundable. 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. There was no provision for income tax for the years ended December 31, 2024 and 2023. Any state and local income taxes are operating expenses on the consolidated statements of income in accordance with the statutory basis of accounting.

As of December 31, 2024 and 2023, 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 taxes on the consolidated statements of changes in members' equity.

The FAIR Plan Cost Sharing Alliance, LLC is a single member LLC and is treated as a disregarded entity for tax purposes. The activity of the Alliance is included in the Association’s tax return.

Note 8. Contingencies

For the years ended December 31, 2024 and 2023, 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, 2024, the Association's uninsured cash balance totaled approximately $1,376,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Commitments

The Association has entered into a reinsurance agreement which terminates October 1, 2025. 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 $1,500,000 each loss occurrence, subject to a limit of liability to the reinsurer of $5,000,000 each loss occurrence. Amounts paid under reinsurance agreements were $219,258 and $175,952 for the years ended December 31, 2024 and 2023, respectively.

During 2023, the Association provided claims, underwriting, accounting, and other services to other state FAIR plans as part of an alliance agreement. Income earned for these services was $248,477 for the year ended December 31, 2023 and is included in service provider income on the consolidated statements of income. This activity was conducted under the Alliance for 2024. The operations of the Alliance are included in the consolidated financial statements as service provider income and expenses.

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Independent Auditors' Report on Supplementary Information

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

We have audited the consolidated financial statements of Kentucky FAIR Plan Reinsurance Association as of and for the years ended December 31, 2024 and 2023, and our report thereon dated March 3, 2025, which expressed an unmodified opinion on those consolidated financial statements on the statutory basis, appears on page 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
March 3, 2025

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KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

CONSOLIDATING BALANCE SHEET - STATUTORY BASIS
December 31, 2024

	Kentucky FAIR Plan Reinsurance Association	FAIR Plan Cost Sharing Alliance, LLC	Eliminations	Total
Admitted Assets				
Investments	$ 13,576,516		$ (625,000)	$ 12,951,516
Cash and cash equivalents	2,105,895	$ 288,553		2,394,448
Premiums receivable	370,781			370,781
Accrued interest receivable	101,861			101,861
Other assets	115,237	519,554	(74,616)	560,175
Refundable income taxes	114,680			114,680
Property occupied not exceeding 10% of admitted assets	1,096,561			1,096,561
Total admitted assets	$ 17,481,531	$ 808,107	$ (699,616)	$ 17,590,022
Liabilities				
Insurance reserves:				
Losses	$ 536,469			$ 536,469
Loss adjustment expenses	139,580			139,580
Unearned premiums	1,281,584			1,281,584
	1,957,633			1,957,633
Commissions payable	26,715			26,715
Accrued expeneses and payables	101,886	$ 12,911	$ (74,616)	40,181
Deferred tax liability	55,600			55,600
	184,201	12,911	(74,616)	122,496
Total liabilities	2,141,834	12,911	(74,616)	2,080,129
Members' Equity	15,339,697	795,196	(625,000)	15,509,893
	$ 17,481,531	$ 808,107	$ (699,616)	$ 17,590,022

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

CONSOLIDATING STATEMENT OF INCOME - STATUTORY BASIS

Year Ended December 31, 2024

	Kentucky FAIR Plan Reinsurance Association	FAIR Plan Cost Sharing Alliance, LLC	Eliminations	Total
Premiums Earned	$ 2,264,478			$ 2,264,478
Underwriting Expenses				
Losses	1,004,893			1,004,893
Loss adjustment	758,278			758,278
Commissions	125,506			125,506
Operating expenses	1,224,100			1,224,100
Total underwriting expenses	3,112,777			3,112,777
Underwriting loss	(848,299)			(848,299)
Other Income (Expense)				
Investment income	729,711			729,711
Installment fees	25,926			25,926
Service provider income		$ 3,255,503	$ (1,265,197)	1,990,306
Service provider operating expenses		(3,085,227)	1,265,197	(1,820,030)
	755,637	170,276		925,913
Net income (loss)	$ (92,662)	$ 170,276	$	$ 77,614

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

CONSOLIDATED SCHEDULES OF OPERATING EXPENSES - STATUTORY BASIS
Years Ended December 31, 2024 and 2023

	2024	2023
Salaries	$ 895,786	$ 1,096,639
Retirement	145,146	162,281
Information processing fees	133,843	130,121
Health insurance	133,406	160,923
Computer	83,093	79,968
Professional fees	63,531	47,816
Payroll taxes	63,420	75,783
Inspections	53,432	57,670
Insurance	50,636	50,626
Miscellaneous	47,489	33,167
Bank service fees	31,247	31,616
PASS contract	30,000	12,000
Telephone and utilities	28,735	25,908
Membership fees	28,016	39,637
Travel and entertainment	18,788	12,269
Office supplies and expense	10,321	7,000
Depreciation	7,416	6,596
Postage and courier	4,797	4,343
Repairs and maintenance	3,792	2,664
Dues and subscriptions	3,189	2,692
Taxes and licenses	67	26
Actuarial fees		12,496
	1,836,150	2,052,241
Less one-third attributable to loss adjustment expenses	(612,050)	(684,080)
	$ 1,224,100	$ 1,368,161

KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

CONSOLIDATED SCHEDULE OF SERVICE PROVIDER OPERATING EXPENSES - STATUTORY BASIS

Year Ended December 31, 2024

	2024
Salaries	$ 1,021,519
Professional fees	391,946
Retirement	165,466
Health insurance	151,871
Payroll taxes	73,100
Computer	12,893
Miscellaneous	2,558
Travel and entertainment	607
Bank service fees	70
	$ 1,820,030

KENTUCKY FAIR PLAN				
Budget Status				
Line	**2022 Budget**	**2023 Budget**	**2024 Budget**	**2024 Final**
Accounting Fees	**$ 18,753**	**$ 20,473**	**$ 21,300**	**$ 20,210**
Actuarial Review	**$ 9,400**	**$ 16,016**	**$ 7,816**	**$ -**
Board Meetings	**$ 500**	**$ 700**	**$ 700**	**$ 1,028**
Bldg. Repairs & Main.	**$ 24,444**	**$ 24,932**	**$ 25,644**	**$ 21,750**
Bldg. Utilities	**$ 8,389**	**$ 9,601**	**$ 9,032**	**$ 7,510**
Building Taxes	**$ 8,992**	**$ 9,541**	**$ 9,783**	**$ 8,727**
Computer Expenses	**$ 68,708**	**$ 60,914**	**$ 64,542**	**$ 83,093**
Dues & Subscriptions	**$ 2,270**	**$ 2,549**	**$ 2,550**	**$ 3,189**
Education	**$ 4,120**	**$ 3,940**	**$ 3,311**	**$ 1,972**
Health Insurance	**$ 135,849**	**$ 182,975**	**$ 168,756**	**$ 133,406**
Human Resources	**$ 15,075**	**$ 13,825**	**$ 15,120**	**$ 42,094**
Inspections	**$ 49,656**	**$ 43,087**	**$ 41,517**	**$ 53,432**
P&C Insurance	**$ 30,421**	**$ 49,350**	**$ 51,416**	**$ 50,636**
Legal/Professional	**$ 52,386**	**$ 53,045**	**$ 41,318**	**$ 31,651**
Meals & Entertainment.	**$ 2,000**	**$ 2,000**	**$ 2,000**	**$ 1,510**
Memb.Fees - PIPSO/ISO	**$ 40,867**	**$ 40,979**	**$ 37,500**	**$ 28,016**
Miscellaneous	**$ 1,200**	**$ 1,200**	**$ 1,200**	**$ 775**
Office Equipment	**$ 1,500**	**$ 1,500**	**$ 1,500**	**$ 925**
Office Supplies	**$ 5,000**	**$ 5,000**	**$ 5,000**	**$ 9,044**
Payroll Fees	**$ 1,450**	**$ 1,715**	**$ 2,376**	**$ 2,747**
Payroll Tax	**$ 77,417**	**$ 94,460**	**$ 94,253**	**$ 63,420**
Retirement Savings Plan	**$ 125,416**	**$ 153,026**	**$ 152,690**	**$ 145,146**
Postage	**$ 9,115**	**$ 9,413**	**$ 6,115**	**$ 4,797**
Printing	**$ 1,699**	**$ 1,699**	**$ 1,500**	**$ 353**
Processing	**$ 155,489**	**$ 146,848**	**$ 146,710**	**$ 133,843**
Repairs and Maintenance	**$ 1,826**	**$ 1,789**	**$ 2,000**	**$ 3,792**
Systems/PASS	**$ 40,000**	**$ 25,000**	**$ 25,000**	**$ 30,000**
Telephone	**$ 17,130**	**$ 24,360**	**$ 19,239**	**$ 28,735**
Travel	**$ 11,000**	**$ 11,000**	**$ 11,000**	**$ 17,278**
Wages (Non Allocated)	**$ 774,173**	**$ 944,604**	**$ 942,534**	**$ 741,487**
FAIR Plan Alliance	$ (65,000)	$ (155,000)	$ (230,000)	
Total	**$ 1,629,245**	**$ 1,800,542**	**$ 1,683,423**	**$ 1,670,562**

Questions for the Illinois FAIR Plan

XXXX @ XXX

Current State of the Illinois Residual Insurance Market

1. What factors are driving homeowners to use the FAIR plan? Are these factors generally consistent across the counties?
   a. How have these factors changed over the last five years?
   b. What are the unique factors affecting the Illinois FAIR plan, compared to other states?

2. How many of your customers tend to use the FAIR plan as a temporary stopgap, compared to remaining on the plan for a long time? Has this changed over time?

3. States such as California have experienced large growth in their FAIR Plans. Does the Illinois FAIR Plan have a plan to manage this type of growth should it occur?

4. What actions do you take to help minimize claim payment time and legal costs?
   a. How often do homeowners take legal action against the Illinois FAIR Plan?

5. Do non-admitted insurers play a big role in the Illinois homeowners insurance market? If not, what role do they play, and can you see their role expanding?

Causes of Rising Insurance Rates

6. Insurers have named factors such as inflation, climate change, increasing property values, construction costs, regulation and legal costs as major contributors to rising insurance rates. What are the reasons for raising premium rates?
   a. Have these reasons changed over the last five years?
   b. Is there data you would be able to share that sheds light on these factors?

Actions Taken and Potential Future Actions

7. What is the Illinois FAIR Plan doing to encourage mitigation among its customers?
   a. If not, what can be done to help encourage mitigation?

8. What federal, state, and local policy options could affect homeowners insurance rates in a positive way, or improve availability, and why?
   a. Are there any options that have been mentioned that you would recommend policymakers not pursue, and why?

KENTUCKY FAIR PLAN

PIPSO SEMI-ANNUAL REPORT

OF PROPERTY INSURANCE PLAN COVERAGE

Line #	Description	YEAR-TO-DATE DATA DATES REPORTED 01/01/24 to 12/31/24
	NEW BUSINESS	
1	Number of applications accepted	754
2	Number of inspections completed	754
3	Number of new policies issued	754
	RENEWAL BUSINESS	
4	Number of requests for renewals	3,523
5	Number of renewals inspected	819
6	Number of renewal policies issued	3,523
	RESULTS BY CLASS OF BUSINESS	
	Number of policies issued (new & renewal)	
7	Habitational	4,101
8	Commercial	175
	Total Premium Written (000)	
9	Habitational	2,313
10	Commercial	238
	Total exposure (000)	
11	Habitational	194,776
12	Commercial	11,318
	LOSSES BY CLASS OF BUSINESS	
	Number of Losses Reported	
13	Habitational	127
14	Commercial	3
	Number of Losses Paid	
15	Habitational	71
16	Commercial	3
	Total Paid Losses (000)	
17	Habitational	658
18	Commercial	37
	Total Outstanding Losses - Case Basis (000)	
19	Habitational	225
20	Commercial	280

Kentucky FAIR Plan Committee Assignments – 2025/2026

Committee	Member	Company
Executive Committee	Rudy Schlich	Old Kentucky Insurance
	Todd Feltman	State Farm
	Mark Hillis -Executive Director	Kentucky FAIR Plan
Investment Committee	Lisa Pierce	Allstate Insurance Co.
	Jon Simon	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Chuck McCurdy	Cerity / ARGI Financial Group
	Mark Hillis - Executive Director	Kentucky FAIR Plan
Member Equity & Reinsurance Committee	Kristen Mellinger	Kentucky Farm Bureau
	Dawn Whalen	Travelers Insurance
	Todd Feltman	State Farm
	Mark Hillis – Executive Director	Kentucky FAIR Plan
Audit Committee	Marcus Bickwermert	Kentucky Farm Bureau
	Todd Feltman	State Farm
	Rudy Schlich	Old Kentucky Insurance
	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	Dwayne Taylor	State Farm
	Anne Smits	Nationwide Insurance
	Andy Heim	Kentucky Farm Bureau
	Erin Lux	Kentucky FAIR Plan
Claims Committee	Henry Goins	Kentucky Farm Bureau
	Dan Pendleton	Kentucky Farm Bureau
	Wesley Savage	State Farm
	Stacie Darnell	Kentucky National
	Russ Thornton	Kentucky FAIR Plan
KAIP Compensation & Benefits	Lisa Pierce	Allstate Insurance Co.