

# Kentucky FAIR Plan Reinsurance Association

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## 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 10:00 A.M. on Wednesday, June 3, 2026, 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 Governing Committee Meeting 10/22/2025
  - Products and Forms Meeting 04/1/2026
  - Audit Meeting 04/8/2026
  - Investment Meeting 04/15/2026
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**

<b>Governing Committee Member</b>	<b>Affiliation</b>
<p><b>Rudy Schlich (Chair)</b>                      Old Kentucky Insurance                      915 Lily Creek Road                      Louisville, KY 40243                      (502) 451-8800  <a href="mailto:Rudy.Schlich@oldkyins.com">Rudy.Schlich@oldkyins.com</a></p>	Agent (d)
<p><b>Matt Highsmith</b>                      State Farm Insurance Co.                      1415 State St., Ste 1000                      Richardson, TX 75082  <a href="mailto:matt.highsmith.pcd7@statefarm.com">matt.highsmith.pcd7@statefarm.com</a></p>	Non Affiliated (b)
<p><b>David Combs</b>                      Kentucky National Insurance                      2416 Sir Barton Way                      Lexington, KY 40509                      (859) 519-1054  <a href="mailto:dacombs@kynat.com">dacombs@kynat.com</a></p>	Domiciled (a)
<p><b>Lisa Pierce</b>                      Allstate Insurance Company                      555 Marriott Drive, Suite 700                      Nashville, TN 37214                      (615) 902-7053  <a href="mailto:Lisa.pierce@allstate.com">Lisa.pierce@allstate.com</a></p>	APCIA –Affiliated (c)
<p><b>Kristen K.W. Mellinger</b>                      Kentucky Farm Bureau Mutual Insurance Co.                      9201 Bunsen Parkway                      Louisville, KY 40220                      (502) 495-5000 x 7499  <a href="mailto:Kristen.Mellinger@kyfb.com">Kristen.Mellinger@kyfb.com</a></p>	Domiciled (a)
<p><b>Dawn Whalen</b>                      Travelers Insurance Company                      303 N. Hurstbourne Parkway Suite 150                      Louisville, KY 40222                      (502) 468-2903  <a href="mailto:dmwhalen@travelers.com">dmwhalen@travelers.com</a></p>	APCIA –Affiliated (c)
<p><b>Jay Kepperling</b>                      Nationwide Mutual Insurance Company                      1 Nationwide Plaza                      Columbus, OH 43215                      502-645-9562  <a href="mailto:jay1@nationwide.com">jay1@nationwide.com</a></p>	NAMIC (c)

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION  
GOVERNING COMMITTEE**

**Kentucky Department of Insurance Representative and Kentucky FAIR Plan Staff**

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

## 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

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A Governing Committee meeting of the Kentucky FAIR Plan was held at 10:00 AM on October 22, 2025, 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.
Lisa Pierce		Allstate Insurance Co.
Jay Kepperling		Nationwide Mutual Insurance Co.
David Combs		Kentucky National
Dawn Whalen		Travelers Insurance

**Staff:**

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

**Guests:**

Shawn Boggs, Deputy Commissioner	Kentucky Department of Insurance
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**1. Call to Order and Roll Call:**

Mr. Schlich initiated roll call, and the attendees introduced themselves. He thanked the Governing Committee for their attendance and support of the Plans and the Commonwealth of Kentucky. Mr. Schlich called the meeting to order and noted that a quorum was present.

**2. Antitrust Preamble:**

Mr. Schlich reminded the Committee that they 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, 2025, Governing Committee Meeting, August 2025 Claims Committee Meeting, August 2025 Underwriting Committee Meeting, September 17, 2025 Reinsurance and Equity Committee Meeting, and the September 17, 2025 Investment Committee Meeting which were distributed and included with the meeting documents. Ms. Whalen 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:**

## KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION GOVERNING COMMITTEE MEETING

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Ms. Lux thanked the industry professionals who conduct both Claims and Underwriting audits for the FAIR Plan. Their dedication to excellence, and the industry, is evident in their efforts each year. The Kentucky Claims Committee met in August 2025, 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 with overall good quality.

### **Underwriting Audit Committee Report:**

Ms. Lux presented the results of the audit conducted by the members of the Underwriting Committee in August 2025. The findings were excellent with no 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. Ms. Lux shared that the Illinois FAIR Plan President has asked the Alliance to include Illinois in the underwriting audits moving forward.

### **Reinsurance and Equity Committee Report:**

Mr. Hillis advised that a meeting was held on September 17, 2025, 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 reminded this Committee that the reinsurance position remains \$5m xs \$1.5m which reflects 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 filling out the program this year was easier than in the last couple of years. The team at Guy Carpenter went to market at 4.1% ROL and secured placement for the Plans for the upcoming term with a blended 4.14% ROL. Going to market and being able to fill the program with the indicated rates will effectuate savings to the Plan for the upcoming term. Mr. Hillis recognized the efforts of Guy Carpenter, noting the offer to model and present data to similarly sized Plans.

### **Investment Committee Report:**

Ms. Chlon reported that the Investment Committee met on September 17, 2025, 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. Chlon indicated that the Committee's updates to the Investment Plan would be reviewed later during this meeting.

### **5. Executive Director's Report:**

Ms. Lux presented a status report for 2025 results and year-end projections. New business applications are projected to end the year at 661, down from 2024 new applications at 754. The Written Premium for year end 2024 was \$2,551,493 and is projected to end under \$2.6M for 2025, a change of less than 1% than 2024. Ms. Lux shared that the loss ratio and loss adjustment expense ratio have increased when compared to 2024, driven by a large loss paid in early 2025. Similar results

## KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION GOVERNING COMMITTEE MEETING

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with the operating expense ratio, currently just under 50% through Q2 2025. Ms. Lux shared that the number of claims reported is significantly higher than last year with projected volume expected to be closer to the 2021, 2022 and 2023 numbers. Wind continues to drive our volume.

Mr. Hillis shared the current bank balances with Cerity / Fifth Third and Republic Bank and noted the nominal balance of the Members Equity Disbursement account that remains open at this time from the 2019 disbursement.

### **6. Budget:**

Mr. Hillis indicated the Plan is on track to end 2025 under budget. The 2026 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, rather, it provides a Defined Contribution Plan.

A budget of \$1,809,818 is proposed for 2026 and a line-item breakdown of the budget was provided to this Committee in the meeting documents. The Plan is operating at a very efficient level. There are changes expected to a few specific areas of the budget to include a decrease in contract services, an increase in computer expenses, processing and systems.

Mr. Schlich moved, and Ms. Mellinger seconded, and the motion carried to approve the 2026 budget as presented.

### **7. Other Business:**

#### **Rate Review:**

Mr. Hillis provided details of the rate review completed by the AIPSO actuary team for all lines of business. The review was previously discussed with the Underwriting Committee in August and the increases, as well as the removal of the \$250 deductible, were supported. Mr. Hillis explained the proposed uncapped rate increases at 17.8% for dwelling fire, 12% for homeowner, and 8.8% for commercial and farm lines, as well as the removal of the \$250 deductible, noting that the deductible change had been previously approved by the Products & Forms Committee earlier this year. It was further noted that rate reviews will remain on an every-other year schedule at this time. Mr. Hillis reminded this Committee that FAIR Plan rates blend industry data, FAIR Plan experience and include a residual market loss cost modifier.

Mr. Combs moved, and Mr. Schlich seconded, and the motion carried, to accept the rate recommendations as proposed, to be effective June 1, 2026.

#### **Underwriting Forms:**

Mr. Hillis introduced a topic that had also been discussed by the Underwriting Committee during the August meeting; restrictive endorsements and exclusions, examples include wind/hail restrictive endorsements, cosmetic damage exclusions, building endorsements/exclusions, and dog bite exclusions. These types of restrictive endorsements and exclusions are not currently in use in the Kentucky Plan but are very common in other FAIR Plans as well as with standard carriers. Mr. Hillis

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opened the floor to discuss the potential addition of these types of forms to the Plan and the reasons behind same, which include the ability to afford wind and hail coverage to properties that would not otherwise qualify due to condition of the roof, to extend perils to previously unqualified commercial properties, and to consider ways to better serve the over 31% of the book of business that carries coverage for fire perils only. Hearing no concerns with moving forward to determine the applicability of these types of endorsements to the FAIR Plan, Mr. Hillis advised that the Plan will work towards presenting this Committee with a recommendation in the future.

### **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 annually for feedback and has gotten overwhelmingly positive responses. Illinois, Kansas, Minnesota, Missouri, Oregon, Washington, and Wisconsin, have all expressed interest in continuing their relationship with the Alliance moving into 2026.

### **Investment Policy Statement Update:**

Ms. Chlon shared that the current members of the Investment Committee had reviewed and provided suggested changes to the FAIR Plan Investment Policy Statement. Ms. Chlon explained that the changes include updating language, addressing the 5% investment rule, detailing tax rates, and taxable and tax-exempt securities, all of which are compliant with Kentucky statute. Both the tracked changes version and the updated version were provided to the Governing Committee.

Mr. Kepperling moved, and Ms. Whalen seconded, and the motion carried, to accept the updated Investment Policy Statement.

### **Department of Insurance Comments:**

Mr. Boggs thanked this Committee for the invitation to participate. He shared appreciation for the pace of the Kentucky FAIR Plan meeting and noted the good work being done by the Kentucky staff.

Mr. Boggs shared his excitement with the upcoming Strengthen Kentucky Homes program which will begin in early 2026. This is a grant program with \$5M available for selected Kentucky property owners to mitigate their roofs against damage caused by wind and hail. Mr. Boggs again thanked this Committee and shared that both he and the Insurance Commissioner are available if needed.

### **Committee Assignments:**

Mr. Schlich advised that 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 3, 2026, and the Fall Meeting will take place on Wednesday October 28, 2026.

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION  
GOVERNING COMMITTEE MEETING**

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**8. Adjournment:**

There being no other business, Mr. Combs moved, Ms. Mellinger seconded, and the meeting adjourned.

Respectfully Submitted,



Erin Lux  
Associate Plans Manager

# KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION

## PRODUCT AND FORMS COMMITTEE MEETING

Pursuant to notice, a meeting was held at 11:00 AM on April 1, 2026.

Present for the meeting:

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

### 1. Call to Order:

Ms. Lux called the meeting to order, took roll and confirmed a quorum.

### 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 March 26, 2025, meeting. The minutes were previously approved by the full Governing Committee during the spring meeting.

### 4. Report of the Plan:

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 – representing over 85% of all the FAIR Plan policies.
- HO2, HO4, HO6, HO8 – representing over 10%
- Commercial Fire – representing 3%
- Farm Property – representing 1 %

Ms. Lux then shared that the FAIR Plan had 3,189 policies in force at the end of 2025, 10% lower than policies in force at the end of 2024. Ms. Lux explained that the largest book of business is Dwelling Fire, which aligns with the FAIR Plan mission of providing basic coverage.

Ms. Lux 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.

A brief review of the average coverage amount by line of business was presented, noting \$44,928 for Dwelling policies, \$80,484 for Homeowner policies, \$88,337 for Commercial policies, and \$27,793 for Farm policies. These amounts are well within the available maximum coverage per line of business. Ms. Mellinger asked about the HO-4 line of business and if they were at or near the maximum coverage available, \$25,000. A review of the four HO-4 policies in force indicated that three of the four are in force are at a \$10,000 limit and one is at the maximum \$25,000.

Ms. Lux shared that written premium continued to decline and, at \$2.5M YE 2025, is down 2% from 2024.

Ms. Lux requested an update from Mr. Schlich, and he, as a representative of independent agents, confirmed that the standard market is able to meet most needs of the market.

Ms. Lux explained that 2026 will enact changes that have been approved by the full Governing Committee and the Department of Insurance. The rate increases for all lines of business, and the removal of the \$250 deductible option will become effective June 1, 2026. The FAIR Plan staff will continue the forms review project in 2026, looking at updating forms and manuals with current and concise language while also considering the addition of endorsements such as wind/hail exclusions and cosmetic damage exclusions. When the review is complete, changes will be presented to the Governing Committee.

**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 3, 2026.

**6. Adjournment:**

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

Respectfully submitted,



Erin Lux  
Vice President of Operations

# Kentucky FAIR Plan Reinsurance Association

## Audit Committee Meeting

Pursuant to notice, a meeting was held at 9:00 AM on April 8, 2026, by Microsoft Teams.

Present for the meeting:

Marcus Bickwermert	Kentucky Farm Bureau
Matt Highsmith	State Farm Insurance
Dawn Whalen	Travelers Insurance Company
Mark Hillis	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 23, 2025, meeting. The minutes were previously approved by the full Governing Committee during the 2025 Spring Meeting.

4. Report of the Plan:

Ms. Faleide reviewed the audit findings and 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 save the industry money.

Mr. Bickwermert inquired about the elimination entries in the financial statements and Ms. Faleide explained those are solely related to the contracted services transactions

between the Kentucky FAIR Plan and the FAIR Plan Cost Sharing Alliance, which employs the individuals and allocates their cost to our Kentucky Plans (including the FAIR Plan) and the Alliance states. The amount of the elimination is the December 2025 amount due to the Alliance from Kentucky FAIR Plan.

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.

Mr. Highsmith inquired about the audit partner rotation requirements as explained in 806 KAR 3:170 6(3). Ms. Faleide shared that DMLO has a plan in place to rotate the lead audit partner each 5 years to remain compliant but also to retain expertise in the industry. 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 2027 for the 2026 audit.

After further discussion, Mr. Highsmith made a motion to continue the engagement of DMLO for auditing services in 2027. Ms. Whalen seconded, and the motion carried.

#### 5. Other Business

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 3, 2026.

#### 6. Adjournment

There being no further business, Ms. Whalen 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

# Kentucky FAIR Plan Reinsurance Association

## Finance and Investment Committee Meeting

Pursuant to notice, a meeting was held at 11:00 AM on April 15, 2026.

Present for the meeting:

Rudy Schlich	Old Kentucky Insurance
Lisa Pierce	Allstate Insurance Company
Jon Simon	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:

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 Committee members had received a copy of the minutes of the September 17, 2025, 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, down just over 2% and assets down just over 4%. There is a decrease in liabilities of nearly 28% at year-end due mostly to decreased loss reserves and other liabilities. The result is a relatively unchanged member equity holding steady at \$15.3 million at 2025-year end. She also shared loss, expense and combined ratio results. The loss and LAE ratio increased from 77.86% in 2024 to 81.09% in 2025. Overall, the combined ratio increased from 135.90% in 2024 to 140.92% in 2025.

Ms. Faleide stated the Republic Bank and ICS accounts reflected a total of just over \$925,000 as of March 31, 2026.

Mr. Hillis noted that the performance of the Plan from 2024 to 2025 is very consistent and indicative of a residual market's purpose.

#### 5. Report of Investment Review

Mr. Simon presented a review of the portfolio along with a compliance review as of March 31, 2026. Observations included one municipal bond being out of compliance with the maximum maturity requirement of 10 years. This was a small oversight that is now fully compliant as of April 15, 2026. Another observation involved the 5% concentration policy limit as applied to ETFs. After Committee discussion, it was determined the policy language should be clarified. Mr. McCurdy offered to work with the Plan to make a slight change to the policy language following this meeting. While the policy updates are being reviewed, Mr. Simon also suggested making the 10-year maturity limit a stand-alone line item and not specific to municipal bonds only. Mr. Simon also noted that with the Plan's large net operating loss, taxable bond instruments and other investments could be considered to produce a better rate of return and still not place the Plan in a taxable situation. Mr. McCurdy and Mr. Burch agreed with the comment and noted such consideration would be noted in management of the portfolio.

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

#### 6. Report of the Investment Managers

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, political turmoil and inflation, Mr. McCurdy turned the presentation over to Mr. Burch 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.

It was further discussed that the Kentucky FAIR Plan currently has a \$2.7 million net operating loss carryforward for federal tax purposes. Therefore, with the tax implications not of concern, the best course of action continues to be to keep Cerity Partners informed so that decisions can be made appropriately.

Mr. McCurdy further discussed the bond maturity ladder and sought guidance on upcoming maturities. Mr. Hillis stated that Cerity Partners is authorized to make investment decisions while remaining compliant with our Investment Policy. This applies to the bond ladder as well as the equity position indicating freedom for an increase in equity investment as long as it remains below the 25% maximum allocation.

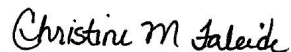
7. Other Business

Ms. Faleide asked the Committee if there was any other business to discuss. Mr. Hillis recognized Ms. Faleide for her efforts in organizing the meeting and necessary preparation required, as well as working in partnership alongside Cerity Partners and Mr. Simon. The committee was reminded of the upcoming Governing Committee meeting scheduled for June 3, 2026.

8. Adjournment

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

Respectfully submitted,



Tina Faleide  
Director of Finance and Investments  
FAIR Plan Alliance

**PUBLIC PROTECTION CABINET****Andy Beshear**  
GOVERNOR**Jacqueline Coleman**  
LIEUTENANT GOVERNOR**Kentucky Department of  
Insurance**500 Mero Street, 2SE11  
Frankfort, KY 40601  
Phone: (502) 564-3630  
Toll Free: (800) 595-6053**Ray A. Perry**  
SECRETARY**DJ Wasson**  
DEPUTY SECRETARY**Sharon P. Clark**  
COMMISSIONER

February 24, 2026

Mr. Stephen Mark Hillis

Kentucky FAIR Plan

10605 Shelbyville Rd., Ste. 102

Louisville, KY 40223

Re: Charles (Matt) Highsmith, State Farm Insurance Company

Appointment to Kentucky FAIR Plan Governing Committee

Dear Mr. Hillis,

Pursuant to your communication of February 10, 2026, Charles (Matt) Highsmith 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



**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**  
**Year Ended December 31, 2025**

<b><u>Financial Highlights</u></b>	<b><u>12/31/2025</u></b>	<b><u>12/31/2024</u></b>
Investments	\$ 12,144,907	\$ 12,951,516
Cash and cash equivalents	\$ 2,557,588	\$ 2,394,448
Premiums receivable	\$ 379,307	\$ 370,781
Property occupied	\$ 1,065,542	\$ 1,096,561
Total admitted assets	\$ 16,832,720	\$ 17,590,022
Insurance reserves	\$ 1,431,849	\$ 1,957,633
Total liabilities	\$ 1,504,416	\$ 2,080,129
Members' equity	\$ 15,328,304	\$ 15,509,893
Premiums earned	\$ 2,308,464	\$ 2,264,478
Change in premiums earned	1.9%	
Underwriting expenses	\$ 3,231,922	\$ 3,112,777
Change in underwriting expenses	3.8%	
Investment income	\$ 492,233	\$ 729,711
Net service provider income	\$ (359,661)	\$ 170,276
Net income (loss)	\$ (759,632)	\$ 77,614
Net cash flow from operations	\$ (1,055,509)	\$ (171,615)
Change in cash	\$ 163,140	\$ 528,058

**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

**CREATE A BETTER FUTURE.**



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, 2025, and have issued our report thereon dated March 3, 2026. 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 20, 2025. 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 2025. 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.

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. 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.

	<u>Change in Net Income</u>
Net impact of PTO and payroll accrual	<u>\$(32,144)</u>

*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 auditors' 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, 2026.

*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 auditors’ 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 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.



Louisville, Kentucky  
March 3, 2026

**KENTUCKY FAIR PLAN REINSURANCE  
ASSOCIATION**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Years Ended December 31, 2025 and 2024**

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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, 2025 and 2024, 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, 2025 and 2024, 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, 2025 and 2024, 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.

**CREATE A BETTER FUTURE.**

### **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, Linsay & Petroff*

Louisville, Kentucky  
March 3, 2026

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**  
**CONSOLIDATED BALANCE SHEETS - STATUTORY BASIS**  
December 31, 2025 and 2024

<b>Admitted Assets</b>	2025	2024
Investments	\$ 12,144,907	\$ 12,951,516
Cash and cash equivalents	2,557,588	2,394,448
Premiums receivable	379,307	370,781
Accrued interest receivable	94,477	101,861
Other assets	216,219	560,175
Refundable income taxes	114,680	114,680
Deferred tax asset	260,000	
Property occupied not exceeding 10% of admitted assets	1,065,542	1,096,561
<b>Total admitted assets</b>	<b>\$ 16,832,720</b>	<b>\$ 17,590,022</b>
<b>Liabilities and Members' Equity</b>		
<b>Liabilities</b>		
Insurance reserves:		
Losses	\$ 131,292	\$ 536,469
Loss adjustment expenses	54,276	139,580
Unearned premiums	1,246,281	1,281,584
	1,431,849	1,957,633
Commissions payable	27,654	26,715
Accrued expenses and payables	44,913	40,181
Deferred tax liability		55,600
	72,567	122,496
<b>Total liabilities</b>	1,504,416	2,080,129
<b>Members' Equity</b>	15,328,304	15,509,893
<b>Total liabilities and members' equity</b>	<b>\$ 16,832,720</b>	<b>\$ 17,590,022</b>

See Notes to Consolidated Financial Statements.

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**

**CONSOLIDATED STATEMENTS OF INCOME - STATUTORY BASIS**

Years Ended December 31, 2025 and 2024

	2025	2024
<b>Premiums Earned</b>	<u>\$ 2,308,464</u>	<u>\$ 2,264,478</u>
<b>Underwriting Expenses</b>		
Losses	1,206,146	1,004,893
Loss adjustment	665,771	758,278
Commissions	122,071	125,506
Operating expenses	<u>1,237,934</u>	<u>1,224,100</u>
<b>Total underwriting expenses</b>	<u>3,231,922</u>	<u>3,112,777</u>
<b>Underwriting loss</b>	(923,458)	(848,299)
<b>Other Income (Expense)</b>		
Investment income	492,233	729,711
Installment fees	31,254	25,926
Service provider income	2,391,939	1,990,306
Service provider operating expenses	<u>(2,751,600)</u>	<u>(1,820,030)</u>
<b>Net (loss) income</b>	<u>\$ (759,632)</u>	<u>\$ 77,614</u>

See Notes to Consolidated Financial Statements.

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**

**CONSOLIDATED STATEMENTS OF CHANGES  
IN MEMBERS' EQUITY - STATUTORY BASIS**

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Members' equity, beginning of year</b>	\$ 15,509,893	\$ 15,553,999
Net (loss) income	(759,632)	77,614
Change in net unrealized gains and losses on investments	255,053	(158,376)
Change in deferred taxes	315,600	34,000
Change in nonadmitted assets	<u>7,390</u>	<u>2,656</u>
<b>Members' equity, end of year</b>	<u>\$ 15,328,304</u>	<u>\$ 15,509,893</u>

See Notes to Consolidated Financial Statements.

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS - STATUTORY BASIS**

Years Ended December 31, 2025 and 2024

	2025	2024
<b>Cash Flows from Operating Activities</b>		
Premiums collected	\$ 2,264,635	\$ 2,317,219
Underwriting expenses paid	(3,702,967)	(2,755,938)
Cash received under service agreements	2,827,008	2,441,663
Cash paid under service agreements	(2,849,088)	(2,607,024)
Investment and other income received	404,903	395,425
Income taxes refunded		37,040
<b>Net cash used in operating activities</b>	<b>(1,055,509)</b>	<b>(171,615)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	3,195,065	7,538,347
Purchases of investments	(1,976,416)	(6,784,030)
Purchases of property and equipment		(54,644)
<b>Net cash provided by investing activities</b>	<b>1,218,649</b>	<b>699,673</b>
<b>Net change in cash and cash equivalents</b>	163,140	528,058
Cash and cash equivalents at beginning of year	2,394,448	1,866,390
Cash and cash equivalents at end of year	<b>\$ 2,557,588</b>	<b>\$ 2,394,448</b>
<b>Reconciliation of Net (Loss) Income to Net Cash Used in Operating Activities</b>		
<b>Net (loss) income</b>	\$ (759,632)	\$ 77,614
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation expense	38,409	38,009
Realized gain on investments	(156,987)	(392,768)
Changes in assets and liabilities:		
(Increase) decrease in:		
Premiums receivable	(8,526)	(8,123)
Accrued interest receivable	7,384	(64)
Other assets	343,956	(338,298)
Refundable income taxes		37,040
Increase (decrease) in:		
Insurance reserves	(525,784)	413,081
Commissions payable	939	879
Accrued expenses and payables	4,732	1,015
<b>Net cash used in operating activities</b>	<b>\$ (1,055,509)</b>	<b>\$ (171,615)</b>

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.

**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, 2025 and 2024, 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 \$38,409 and \$38,009 for the years ended December 31, 2025 and 2024, 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, 2026, 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, 2025 and 2024.

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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Municipal bonds at amortized cost	\$ 7,939,096	\$ 8,437,497
Equity mutual funds at fair value	<u>4,205,811</u>	<u>4,514,019</u>
	<u>\$12,144,907</u>	<u>\$12,951,516</u>
Municipal bonds:		
Fair value	\$ 7,917,160	\$ 8,218,177
Carrying value	<u>7,939,096</u>	<u>8,437,497</u>
Excess carrying value	<u>\$ (21,936)</u>	<u>\$ (219,320)</u>
Equity mutual funds (Level 1):		
Fair value	\$4,205,811	\$4,514,019
Cost	<u>3,717,582</u>	<u>4,280,844</u>
Unrealized gain	<u>\$ 488,229</u>	<u>\$ 233,175</u>

The schedule of maturities for municipal bonds at December 31, 2025 is as follows:

	<u>Book Value</u>	<u>Fair Value</u>
Due in one year or less	\$ 764,074	\$ 758,823
Due after one year through five years	4,498,440	4,462,161
Due after five years through ten years	<u>2,676,582</u>	<u>2,696,176</u>
	<u>\$7,939,096</u>	<u>\$7,917,160</u>

Proceeds from the sale of securities were \$3,195,065 and \$7,538,347 for the years ended December 31, 2025 and 2024, respectively. Gains realized from these sales were \$156,987 and \$392,768 for the years ended December 31, 2025 and 2024, 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, 2025 and 2024, the Association did not record any other-than-temporary impairments.

The following table summarizes securities with unrealized losses at December 31, 2025 and 2024, aggregated by major security type and length of time in a continuous unrealized loss position:

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Unrealized</u> <u>Loss</u>	<u>Fair</u> <u>Value</u>	<u>Unrealized</u> <u>Loss</u>	<u>Fair</u> <u>Value</u>	<u>Unrealized</u> <u>Loss</u>	<u>Fair</u> <u>Value</u>
Municipal bonds:						
2025	<u>\$ (2,748)</u>	<u>\$ 319,002</u>	<u>\$ (75,860)</u>	<u>\$4,685,293</u>	<u>\$ (78,608)</u>	<u>\$5,004,295</u>
2024	<u>\$(95,323)</u>	<u>\$3,794,307</u>	<u>\$(132,665)</u>	<u>\$3,549,907</u>	<u>\$(227,988)</u>	<u>\$7,344,214</u>

### 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, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Reserves, beginning of year	\$ 676,049	\$ 323,832
Incurred loss and loss adjustment expenses:		
Provision for insured events of current year	414,240	843,910
Increase in provision attributable		
to prior year events	<u>1,457,674</u>	<u>941,669</u>
Total incurred	<u>1,871,914</u>	<u>1,785,579</u>
Payments:		
Attributable to current year events	980,022	910,262
Attributable to prior year events	<u>1,382,373</u>	<u>523,100</u>
Total paid	<u>2,362,395</u>	<u>1,433,362</u>
Reserves, end of year	<u>\$ 185,568</u>	<u>\$ 676,049</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Retirement Plans

The Alliance has a 401(k) defined contribution plan. Participants in the plan receive a discretionary matching contribution and a discretionary profit sharing contribution. Total retirement expense associated with this plan was \$345,851 and \$310,612 for the years ended December 31, 2025 and 2024, respectively.

### 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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Receivable at beginning of year	\$ 386,708	\$ 139,161
Expenses allocated to related parties	861,386	1,698,254
Payments received from related parties	<u>(1,169,048)</u>	<u>(1,450,707)</u>
Receivable at end of year	<u>\$ 79,046</u>	<u>\$ 386,708</u>

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, 2025 and 2024 was \$28,800, and is included in investment income on the consolidated statements of income.

## NOTES TO CONSOLIDATED 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, 2025 and 2024. 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, 2025 and 2024, 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, differences in federal and book depreciation, and net operating loss carryforwards, 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, 2025 and 2024, 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, 2025, the Association's uninsured cash balance totaled approximately \$918,000.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 10. Commitments**

The Association has entered into a reinsurance agreement which terminates October 1, 2026. 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 \$213,481 and \$219,258 for the years ended December 31, 2025 and 2024, respectively.



### 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, 2025 and 2024, and our report thereon dated March 3, 2026, which expressed an unmodified opinion on those consolidated financial statements on the statutory basis, appears on pages 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, Lussary & Ostroff*

Louisville, Kentucky  
 March 3, 2026

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**  
**CONSOLIDATING BALANCE SHEET - STATUTORY BASIS**  
December 31, 2025

	Kentucky FAIR Plan Reinsurance Association	FAIR Plan Cost Sharing Alliance, LLC	Eliminations	Total
<b>Admitted Assets</b>				
Investments	\$ 12,769,907		\$ (625,000)	\$ 12,144,907
Cash and cash equivalents	2,369,216	\$ 188,372		2,557,588
Premiums receivable	379,307			379,307
Accrued interest receivable	94,477			94,477
Other assets	65,065	268,189	(117,035)	216,219
Refundable income taxes	114,680			114,680
Deferred tax asset	260,000			260,000
Property occupied not exceeding 10% of admitted assets	1,065,542			1,065,542
<b>Total admitted assets</b>	<u>\$ 17,118,194</u>	<u>\$ 456,561</u>	<u>\$ (742,035)</u>	<u>\$ 16,832,720</u>
<b>Liabilities</b>				
Insurance reserves:				
Losses	\$ 131,292			\$ 131,292
Loss adjustment expenses	54,276			54,276
Unearned premiums	1,246,281			1,246,281
	<u>1,431,849</u>			<u>1,431,849</u>
Commissions payable	27,654			27,654
Accrued expenses and payables	144,388	\$ 17,560	\$ (117,035)	44,913
	<u>172,042</u>	<u>17,560</u>	<u>(117,035)</u>	<u>72,567</u>
<b>Total liabilities</b>	1,603,891	17,560	(117,035)	1,504,416
<b>Members' Equity</b>	<u>15,514,303</u>	<u>439,001</u>	<u>(625,000)</u>	<u>15,328,304</u>
	<u>\$ 17,118,194</u>	<u>\$ 456,561</u>	<u>\$ (742,035)</u>	<u>\$ 16,832,720</u>

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**  
**CONSOLIDATING STATEMENT OF INCOME - STATUTORY BASIS**  
Year Ended December 31, 2025

	<u>Kentucky FAIR Plan Reinsurance Association</u>	<u>FAIR Plan Cost Sharing Alliance, LLC</u>	<u>Eliminations</u>	<u>Total</u>
<b>Premiums Earned</b>	\$ 2,308,464			\$ 2,308,464
<b>Underwriting Expenses</b>				
Losses	1,206,146			1,206,146
Loss adjustment	665,771			665,771
Commissions	122,071			122,071
Operating expenses	<u>1,237,934</u>			<u>1,237,934</u>
<b>Total underwriting expenses</b>	<u>3,231,922</u>			<u>3,231,922</u>
<b>Underwriting loss</b>	(923,458)			(923,458)
<b>Other Income (Expense)</b>				
Investment income	488,767	\$ 3,466		492,233
Installment fees	31,254			31,254
Service provider income		3,720,472	\$ (1,328,533)	2,391,939
Service provider operating expenses		<u>(4,080,133)</u>	<u>1,328,533</u>	<u>(2,751,600)</u>
	<u>520,021</u>	<u>(356,195)</u>		<u>163,826</u>
<b>Net loss</b>	<u>\$ (403,437)</u>	<u>\$ (356,195)</u>	<u>\$</u>	<u>\$ (759,632)</u>

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**

**CONSOLIDATED SCHEDULES OF OPERATING EXPENSES - STATUTORY BASIS**

Years Ended December 31, 2025 and 2024

	2025	2024
Salaries	\$ 910,769	\$ 895,786
Health insurance	206,956	133,406
Retirement	145,350	145,146
Information processing fees	137,244	133,843
Computer	76,911	83,093
Insurance	70,501	50,636
Payroll taxes	65,458	63,420
Professional fees	53,721	63,531
Inspections	43,649	53,432
Membership fees	33,234	28,016
Bank service fees	31,781	31,247
Telephone and utilities	22,920	28,735
Miscellaneous	16,035	47,489
Actuarial fees	13,376	
Postage and courier	7,886	4,797
Depreciation	7,388	7,416
Office supplies and expense	5,314	10,321
Repairs and maintenance	3,693	3,792
Dues and subscriptions	2,711	3,189
Travel and entertainment	1,992	18,788
Taxes and licenses	15	67
PASS contract		30,000
	1,856,904	1,836,150
Less one-third attributable to loss adjustment expenses	(618,970)	(612,050)
	\$ 1,237,934	\$ 1,224,100

**KENTUCKY FAIR PLAN REINSURANCE ASSOCIATION**

**CONSOLIDATED SCHEDULES OF SERVICE PROVIDER  
OPERATING EXPENSES - STATUTORY BASIS**

Years Ended December 31, 2025 and 2024

	2025	2024
Salaries	\$ 1,227,358	\$ 1,021,519
Professional fees	850,814	391,946
Retirement	200,501	165,466
Health insurance	195,145	151,871
Computer	137,596	12,893
Payroll taxes	84,949	73,100
Travel and entertainment	25,559	607
Miscellaneous	21,545	2,558
Dues and subscriptions	7,565	
Bank service fees	568	70
	\$ 2,751,600	\$ 1,820,030

KENTUCKY FAIR PLAN				
Budget Status				
Line	2023 Budget	2024 Budget	2025 Budget	2025 Final
Accounting Fees	\$ 20,473	\$ 21,300	\$ 21,221	\$ 22,500
Actuarial Review	\$ 16,016	\$ 7,816	\$ 16,016	\$ 13,376
Board Meetings	\$ 700	\$ 700	\$ 700	\$ 1,421
Bldg. Repairs & Main.	\$ 24,932	\$ 25,644	\$ 26,208	\$ 25,298
Bldg. Utilities	\$ 9,601	\$ 9,032	\$ 8,025	\$ 8,255
Building Taxes	\$ 9,541	\$ 9,783	\$ 9,753	\$ 8,574
Computer Expenses	\$ 60,914	\$ 64,542	\$ 76,343	\$ 76,911
Dues & Subscriptions	\$ 2,549	\$ 2,550	\$ 2,375	\$ 2,711
Education	\$ 3,940	\$ 3,311	\$ 5,261	\$ 2,022
Health Insurance	\$ 182,975	\$ 168,756	\$ -	\$ -
Human Resources	\$ 13,825	\$ 15,120	\$ 17,730	\$ 8,359
Inspections	\$ 43,087	\$ 41,517	\$ 44,568	\$ 43,649
P&C Insurance	\$ 49,350	\$ 51,416	\$ 54,897	\$ 70,501
Legal/Professional	\$ 53,045	\$ 41,318	\$ 41,626	\$ 2,421
Meals & Entertainment.	\$ 2,000	\$ 2,000	\$ 2,250	\$ 772
Memb.Fees - PIPSO/ISO	\$ 40,979	\$ 37,500	\$ 37,500	\$ 33,234
Miscellaneous	\$ 1,200	\$ 1,200	\$ 1,200	\$ 423
Office Equipment	\$ 1,500	\$ 1,500	\$ 1,500	\$ 850
Office Supplies	\$ 5,000	\$ 5,000	\$ 8,000	\$ 4,104
Payroll Fees	\$ 1,715	\$ 2,376	\$ -	\$ -
Payroll Tax	\$ 94,460	\$ 94,253	\$ -	\$ -
Retirement Savings Plan	\$ 153,026	\$ 152,690	\$ -	\$ -
Postage	\$ 9,413	\$ 6,115	\$ 6,698	\$ 7,886
Printing	\$ 1,699	\$ 1,500	\$ 1,500	\$ 360
Processing	\$ 146,848	\$ 146,711	\$ 162,962	\$ 137,244
Repairs and Maintenance	\$ 1,789	\$ 2,000	\$ 2,761	\$ 3,693
Systems/PASS	\$ 25,000	\$ 25,000	\$ 25,000	\$ -
Telephone	\$ 24,360	\$ 19,239	\$ 23,676	\$ 22,920
Travel	\$ 11,000	\$ 11,000	\$ 11,000	\$ 1,220
Wages	\$ 944,604	\$ 942,534	\$ -	\$ -
Contract Services	\$ -	\$ -	\$ 1,190,829	\$ 1,243,061
FAIR Plan Alliance	\$ (155,000)	\$ (230,000)	\$ -	\$ -
<b>Total</b>	<b>\$ 1,800,542</b>	<b>\$ 1,683,426</b>	<b>\$ 1,799,599</b>	<b>\$ 1,741,765</b>

## KENTUCKY FAIR PLAN

**PIPSO SEMI-ANNUAL REPORT  
OF PROPERTY INSURANCE PLAN COVERAGE**

Line #	Description	YEAR-TO-DATE DATA
		DATES REPORTED 01/01/25 to 12/31/25
	<b><u>NEW BUSINESS</u></b>	
1	Number of applications accepted	672
2	Number of inspections completed	672
3	Number of new policies issued	672
	<b><u>RENEWAL BUSINESS</u></b>	
4	Number of requests for renewals	3,310
5	Number of renewals inspected	893
6	Number of renewal policies issued	3,310
	<b><u>RESULTS BY CLASS OF BUSINESS</u></b>	
	<b><u>Number of policies issued (new &amp; renewal)</u></b>	
7	Habitational	3,812
8	Commercial	170
	<b><u>Total Premium Written (000)</u></b>	
9	Habitational	2,242
10	Commercial	254
	<b><u>Total exposure (000)</u></b>	
11	Habitational	186,162
12	Commercial	13,173
	<b><u>LOSSES BY CLASS OF BUSINESS</u></b>	
	<b><u>Number of Losses Reported</u></b>	
13	Habitational	153
14	Commercial	9
	<b><u>Number of Losses Paid</u></b>	
15	Habitational	104
16	Commercial	9
	<b><u>Total Paid Losses (000)</u></b>	
17	Habitational	1,079
18	Commercial	532
	<b><u>Total Outstanding Losses - Case Basis (000)</u></b>	
19	Habitational	109
20	Commercial	0

## Kentucky FAIR Plan Committee Assignments – 2026/2027

Committee	Member	Company
<b>Executive Committee</b>	Rudy Schlich	Old Kentucky Insurance
	Kristen Mellinger	Kentucky Farm Bureau
	Mark Hillis -Executive Director	Kentucky FAIR Plan
<b>Investment Committee</b>	Lisa Pierce	Allstate Insurance Co.
	Jon Simon	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Chuck McCurdy	Cerity Partners
	Mark Hillis - Executive Director	Kentucky FAIR Plan
<b>Member Equity &amp; Reinsurance Committee</b>	Kristen Mellinger	Kentucky Farm Bureau
	Dawn Whalen	Travelers Insurance
	Matt Highsmith	State Farm
<b>Audit Committee</b>	Mark Hillis – Executive Director	Kentucky FAIR Plan
	Marcus Bickwermert	Kentucky Farm Bureau
	Matt Highsmith	State Farm
	Rudy Schlich	Old Kentucky Insurance
<b>Products and Forms Committee</b>	Tina Faleide	Kentucky FAIR Plan
	Kristen Mellinger	Kentucky Farm Bureau
	Rudy Schlich	Old Kentucky Insurance
	Jay Kepperling	Nationwide
	Erin Lux	Kentucky FAIR Plan
<b>Underwriting Committee</b>	Dwayne Taylor	State Farm
	Andy Heim	Kentucky Farm Bureau
	Open	Open
	Erin Lux	Kentucky FAIR Plan
<b>Claims Committee</b>	Henry Goins	Kentucky Farm Bureau
	Dan Pendleton	Kentucky Farm Bureau
	Wesley Savage	State Farm
	Stacie Darnell	Kentucky National
	Erin Lux	Kentucky FAIR Plan
<b>KAIP Compensation &amp; Benefits</b>	Lisa Pierce	Allstate Insurance Co.