FILED
NOV 0 7 2013
FRANKLIN CIRCUIT COURT
SALLY JUMP, CLERK

COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIT COURT
DIVISION I
CIVIL ACTION NO. 13-CI-1297

SHARON P. CLARK, in her capacity as COMMISSIONER KENTUCKY DEPARTMENT OF INSURANCE — **PETITIONER**

vs.

VERIFIED PETITION FOR REHABILITATION

KENTUCKY SCHOOL BOARD INSURANCE TRUST PROPERTY AND LIABILITY FUND
SERVE: D. E. Narramore, Jr.
Chair
Kentucky School Board Insurance Trust
Property and Liability Fund
260 Democrat Drive
Frankfort, KY 40601

AND

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION — **RESPONDENTS**
SERVE: Susan Barto
President
Kentucky League of Cities
100 East Vine Street, Suite 800
Lexington, KY 40507

Temple Juett, Process Agent
Kentucky League of Cities Insurance Services Association
100 East Vine Street, Suite 800
Lexington, KY 40507

* * * * * * *

This action is instituted to appoint Sharon P. Clark, Commissioner of Insurance for the Commonwealth of Kentucky (hereinafter "Commissioner" or "Petitioner"), as Rehabilitator of

Kentucky School Boards Insurance Trust Property and Liability Fund ("KSBIT Liability Fund"); to obtain appropriate relief to protect policyholders, claim holders, and the public; and, to declare the rights of the parties relative to certain Kentucky Surplus Notes described below.

PARTIES AND JURISDICTION

1. This Court has exclusive jurisdiction over this matter pursuant to KRS 304.33-040(3) and KRS 304.33-030(13).

2. The Commissioner states that she is the duly appointed and qualified Commissioner of the Department of Insurance of the Commonwealth of Kentucky.

3. Kentucky School Boards Insurance Trust ("KSBIT") was created in 1978 to provide coverage through nonprofit self-insurance funds authorized under Kentucky law. These self-insurance funds allowed school districts to combine their resources while sharing the risk. There are two separate self-insurance funds within KSBIT, both of which are in a deficit position. The two self-insurance funds are the Workers' Compensation Fund and the Property and Liability Pool. This action relates to the KSBIT Property and Liability Fund.

4. KSBIT has established the KSBIT Liability Fund as a liability self-insurance group authorized by KRS 304.48-040 and defined in KRS 304.48-030.

5. The KSBIT Liability Fund is deemed an "insurer" pursuant to KRS 304.33-030(4) and KRS 304.33-020(12).

6. Kentucky League of Cities Insurance Services Association ("KLC") is an unincorporated association created by Interlocal Agreement dated 1987. KLC is a party to this action because there is an actual and justiciable controversy between it and the Petitioner as to the obligation of the KSBIT Liability Fund under certain Kentucky Surplus Notes, as is further set forth.

7. Pursuant to KRS 304.48-010, *et seq.*, the Commissioner and the Kentucky Department of Insurance have regulatory authority over liability self-insured groups such as the KSBIT Liability Fund.

8. Pursuant to KRS 304.33-140, the Commissioner may apply by verified petition to the Court for an order directing the Commissioner to rehabilitate a domestic insurer domiciled in the Commonwealth when the Commissioner has reasonable cause to believe that the insurer is insolvent or that assets are endangered in an amount threatening the solvency of the insurer, and where the insurer is in such condition that the further transaction of business would be hazardous, financially or otherwise, to its policyholders, its creditors, or the public.

9. For the reasons set forth herein, the Commissioner respectfully submits that the entry of an Order of Rehabilitation against the KSBIT Liability Fund is both justified and necessary.

BACKGROUND

10. The KSBIT Liability Fund has been operating for several years in a deficit position.

11. Restating the KSBIT Liability Fund's audited financial statements using a "hindsight approach" demonstrates that the KSBIT Liability Fund entered into a deficit position, from which it never emerged, as of July 1, 2007.

12. The Kentucky League of Cities, Inc. ("KLC, Inc.") began administering the KSBIT Liability Fund on January 1, 2010, which resulted in the transfer of responsibility for claims handling and loss control administration to KLC.

13. Pursuant to KRS 304.24-300, KLC loaned $2,500,000 in the form of a "Kentucky Surplus Note" to address the estimated deficit of the KSBIT Liability Fund. The Kentucky

Surplus Note did not eliminate the deficit. The Kentucky Surplus Note simply addressed the deficit from a regulatory perspective.

14. Despite KLC, Inc.'s assistance and the changes instituted by KLC, Inc. and KSBIT, the KSBIT Liability Fund's financial condition did not improve. In fact, on January 9, 2013 KSBIT decided to ceased accepting new or renewal business as of June 30, 2013 through the KSBIT Liability Fund.

15. According to the Independent Audit Report for years ended June 30, 2013 and 2012, also prepared by Dean Dorton Allen Ford, PLLC, the KSBIT Liability Fund has a total net deficit of $8,829,532. The KSBIT Liability Fund's Statement of Net Deficit for those years as prepared by its independent auditor is attached as Exhibit 1.

16. The KSBIT Liability Fund has taken a number of steps to address the fund's deficit. In addition to KLC, Inc.'s assistance, the fund cut operating costs, attempted to rebuild market share, shifted to a managed care model to reduce medical costs, and increased premium rates. However, the fund's deficits continued to grow.

17. In sum, despite years of work to eliminate the KSBIT Liability Fund's deficit, the deficit has significantly increased.

18. As a result, the only reasonable method of eliminating the deficit is through the assessment of the members of the KSBIT Liability Fund. The Department has engaged its own expert to review the financial condition of the KSBIT Liability Fund and prepare a plan and method to assess the deficit amount.

ORDER OF REHABILITATION

19. Based upon all information available, the Commissioner has concluded that the KSBIT Liability Fund's deficit is a severe threat to the solvency of the fund; that the KSBIT Liability Fund is in such condition that the further transaction of business would be hazardous, financially or otherwise, to its policyholders and to the public; and, that the fund is in a hazardous financial condition.

20. Accordingly, and pursuant to KRS 304.33-150, the Commissioner requests that she and her successors be appointed as the Rehabilitator of the KSBIT Liability Fund.

21. The Commissioner further requests that she, and her successors, be bestowed with all authority and powers of a Rehabilitator as provided by KRS 304.33, including, but not limited to, confirmation that the Rehabilitator:

(a) has all the powers of the directors, officers, and managers of the KSBIT Liability Fund, whose authority shall be suspended, except as they are re-delegated by the Rehabilitator;

(b) may direct, manage, hire and discharge employees subject to any contract rights they may have;

(c) may deal with the property and business of the KSBIT Liability Fund;

(d) has the exclusive authority to prosecute any action that may exist on behalf of members or policyholders of the KSBIT Liability Fund against any director or officer of the KSBIT Liability Fund or any other person or entity;

(e) shall take possession of the assets of the KSBIT Liability Fund as soon as possible and to administer them under the general supervision of this Court;

(f) may prepare a plan for the reorganization, consolidation, conversion, reinsurance, merger, or other transformation of the KSBIT Liability Fund;

(g) is authorized to employ and fix the compensation of any special deputy rehabilitators, counsel, clerks, and assistants, all of whom shall serve at the pleasure of the Rehabilitator;

(h) may pay all expenses of taking possession of the KSBIT Liability Fund and other costs and expenses of the administration of this proceeding; and,

(i) may pay such compensation and other costs and expenses of administration out of the funds or assets of the KSBIT Liability Fund.

22. Pursuant to her powers as Rehabilitator, the Commissioner requests and nominates for appointment as Special Deputy Rehabilitator, Joseph N. Pope, Jr.

23. Pursuant to KRS 304.33-160, the Rehabilitator is authorized and directed to take such action respecting pending litigation as she considers necessary in the interests of justice and for the protection of policyholders and the public, and to consider all litigation pending outside Kentucky and to petition the courts having jurisdiction over that litigation for stays whenever necessary to protect the KSBIT Liability Fund.

24. Pursuant to KRS 304.33-170, all courts in Kentucky before which any action or proceeding in which the KSBIT Liability Fund is a party or is obligated to defend a party is pending shall immediately stay that action for such time as is necessary for the Rehabilitator to obtain proper representation and prepare for further proceedings.

ASSESSMENT PLAN

25. The Rehabilitator must assess THE KSBIT Liability Fund members to remedy the fund's deficit. A copy of the assessment plan is attached hereto and made part of this Petition as Exhibit 2.

26. The Rehabilitator intends to assess KSBIT Liability Fund members as follows:

(a) Pursuant to KRS 304.48-250(1), if the assets of a liability self-insurance group are at any time insufficient to enable the group to discharge its legal liabilities, other obligations, and to maintain the required reserves under this subtitle, the group shall levy an assessment upon its members for the amount necessary to make up the deficiency.

(b) Restating the KSBIT Liability Fund's audited financial statements using a "hindsight approach" demonstrates that the KSBIT Liability Fund entered into a deficit position, from which it never emerged, as of July 1, 2007.

(c) Accordingly, only those members of the KSBIT Liability Fund from July 1, 2007 to June 30, 2013 are subject to the assessment.

27. Pursuant to the Rehabilitator's assessment plan, each assessed member may elect to pay its individual assessment in one of the following manners:

a. A member may elect to pay its individual assessment in full within thirty (30) days of levying the individual assessment; or

b. Pursuant to KRS 304.48-250(5), a member may finance the payment of the assessment by issuing bonds, notes, or other forms of obligations acceptable to the Rehabilitator.

28. Pursuant to the terms of the Assessment Plan, the Rehabilitator will diligently pursue the collection of all assessment payments. Accordingly, if any assessed member is more than three (3) days past due on any assessment payment, the Rehabilitator will commence collection of such past due installment payment pursuant to KRS 160.160(5) by the intercept of any payment due to such member from the Commonwealth of Kentucky (the "Intercept").

29. To secure the payment of the assessment and ensure the Intercept, the Rehabilitator intends to enter into with the Kentucky Department of Education and Kentucky Finance and Administration Cabinet a Memorandum of Understanding in the form attached as Exhibit 3.

30. Pursuant to KRS 304.48, the assessment plan is fair and equitable and does not discriminate between members. The assessment plan ensures that the KSBIT Liability Fund's members' claims will be paid.

31. The assessment plan is a less expensive alternative to the prior "novation" assessment option the KSBIT Liability Fund provided to its members and submitted for consideration to the Department.

32. The Commissioner thus respectfully submits that the assessment plan is necessary, is in the best interests of the KSBIT Liability Fund, its members, claimants, and the public.

SURPLUS NOTE WITH KLC DECLARATION OF RIGHTS

COUNT I

33. On January 6, 2010, and pursuant to KRS 304.24-300, the KSBIT Liability Fund and KLC entered into a $2,500,000 Kentucky Surplus Note pursuant to which KSBIT promised

to repay KLC "solely out of the surplus of the Trust [KSBIT] in excess of $2,000,000 (the amount of which is referred to as the 'Minimum Surplus.')." A copy of the Surplus Note is attached hereto as Exhibit 4.

34. Terms of the Surplus Note include the provision that, "The principal amount of this note shall not form a part of the Trust's [KSBIT's] statutory legal liabilities, except to the extent of its surplus in excess of the Minimum Surplus, or be the basis of any set-off."

35. Since the execution of the Surplus Note, KSBIT has not, and as a result of its discontinuation of writing new business as of July 1, 2013, never will have a surplus in excess of the Minimum Surplus.

36. Pursuant to the terms of the Surplus Note, the Commissioner's Assessment Plan does not include an amount to cover repayment of the Surplus Note.

37. KLC contends that the Surplus Note is evidence of a legal obligation presently payable by KSBIT and for which an assessment should be made.

COUNT II

38. At or about the time of the execution of the Surplus Note, KLC required that KSBIT enter into a Master Agreement (Exhibit 5) whereby KLC rquireed that it be allowed 9 of 19 seats on the KSBIT Board and also required that any matters involving the Surplus Notes be decided by a "Special Majority Vote" of at least 10 Trustees, 5 of whom must be KLC Trustees, effectively giving KLC control of the KSBIT Board.

39. In spite of the fact that no payment of interest was due on the Surplus Note, the KSBIT Board, acting contrary to the interests of its members, unlawfully caused interest to be paid on the Surplus Note to KLC the total sum of $404,024.

40. There is an actual and justiciable controversy between the Commissioner and KLC as to whether there is any obligation on the part of Commissioner to make an assessment and cause repayment of the Surplus Note, and there is a justiciable controversy as to the liability of KLC for repayment of the interest on the Surplus Note, and these controversies form the basis of jurisdiction in this court for a declaratory judgment pursuant to Section 112(5) of the Kentucky Constitution, KRS 23A.010, and KRS 418.040.

PRAYER FOR RELIEF

1. The Commissioner requests that the Court *immediately* enter an order in the form attached hereto as Exhibit 6 which appoints the Commissioner and her successors in office as the Rehabilitator of the KSBIT Liability Fund, including bestowing upon the Commissioner all authority and powers of a Rehabilitator as provided by KRS 304.33, including, but not limited to, confirmation that the Rehabilitator;

(a) has all the powers of the directors, officers, and managers of the KSBIT Liability Fund, whose authority shall be suspended, except as they are re-delegated by the Rehabilitator;

(b) may direct, manage, hire and discharge employees subject to any contract rights they may have;

(c) may deal with the property and business of the insurer;

(d) has the exclusive authority to prosecute any action that exists on behalf of members or policyholders of Kentucky School Boards Insurance Trust Liability Fund against any director or officers of Kentucky School Boards Insurance Trust Liability Fund or any other person or entity;

(e) and, which

(i) directs the Rehabilitator to take possession of the assets of the KSBIT Liability Fund as soon as possible and to administer them under the general supervision of this Court;

(ii) directs the Rehabilitator to provide accountings to this Court at intervals as the Court may specify;

(iii) authorizes the Rehabilitator to employ and fix the compensation of any special deputy rehabilitators, counsel, clerks, and assistants, all of whom shall serve at the pleasure of the Rehabilitator; to pay all expenses of taking possession of the KSBIT Liability Fund and other costs and expenses of the administration of this proceeding; and, to pay such compensation and other costs and expenses of administration out of the funds or assets of the KSBIT Liability Fund;

(iv) authorizes and directs the Rehabilitator to take such action respecting pending litigation as she considers necessary in the interests of justice and for the protection of policyholders and the public, and to consider all litigation pending outside Kentucky and to petition the courts having jurisdiction over that litigation for stays whenever necessary to protect the KSBIT Liability Fund;

(v) directs that any court or tribunal in Kentucky before which any action or proceeding in which KSBIT is a party or is obligated to defend a party is pending shall stay that action or proceeding for such time as is necessary for the Rehabilitator to obtain proper representation and prepare for further proceedings; and,

(f) appoints Joseph N. Pope, Jr. as the Special Deputy Rehabilitator.

(g) provides that this Court retain jurisdiction for such other and related relief as is appropriate.

2. The Commissioner further requests that the Court, following a properly noticed hearing, enter an order in the form attached hereto as Exhibit 7 that approves the Assessment Plan as described herein;

3. For judgment declaring that the KSBIT Liability Fund has no obligation to cause the payment of either the principal or interest on the Surplus Note and for money damages in the sum of $404,024; and

4. Any and all other appropriate relief to which Petitioner may be entitled.

Respectfully submitted,

Signature on file with original document

Peter F. Ervin
La Tasha Buckner
Public Protection Cabinet
Office of Legal Services
Capitol Tower Plaza
500 Mero Street, 5th Floor
Frankfort, Kentucky 40601
(502) 564-7760

And

Signature on file with original document

Shaun T. Orme
General Counsel
Kentucky Department of Insurance
215 West Main St.
Frankfort, KY 40601
(502) 564-6032

Counsel for Sharon P. Clark, in Her Capacity as Commissioner of Kentucky Department of Insurance

<u>VERIFICATION</u>

I, Sharon P. Clark, Commissioner of the Kentucky Department of Insurance, affirm that the foregoing representations in the Verified Petition for Rehabilitation are true:

Signature on file with original document

Sharon P. Clark, Commissioner
Kentucky Department of Insurance

COMMONWEALTH OF Kentucky)
)
COUNTY OF Franklin)

On this the 7th day of November, 2013, before me Deborah O. Stamper, the undersigned, **Sharon P. Clark**, did personally appear and acknowledged herself to be the Commissioner of the Kentucky Department of Insurance, and having been duly sworn executed and acknowledged this Verification.

In witness whereof I hereunto set my hand.

My Commission Expires: June 14, 2014

Signature on file with original document

Notary Public

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **Verified Petition for Rehabilitation** was sent by first class mail to on this the 7th day of November 2013 to each of the Kentucky School Boards Insurance Trust Property and Liability Fund members that are subject to the assessment.

Signature on file with original document

Counsel for Petitioner

KENTUCKY SCHOOL BOARDS INSURANCE TRUST PROPERTY AND LIABILITY FUND

Financial Statements and Supplementary Information

Years Ended June 30, 2013 and 2012
with Report of Independent Auditors

CONTENTS

DORTON
DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors

Board of Trustees
Kentucky School Boards Insurance Trust Property and Liability Fund
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky School Boards Insurance Trust Property and Liability Fund (the Fund) which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

106 W. Vine Street, Suite 600 · Lexington, KY 40507 859 255-2341 phone 859 255-0125 fax
500 W. Jefferson Street, Suite 1400 Louisville, KY 40202 502-589-6050 phone 502 581-9016 fax · dorton.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky School Boards Insurance Trust Property and Liability Fund as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Going Concern

The accompanying financial statements have been prepared assuming that the Fund will continue as a going concern. As discussed in Note 9 to the financial statements, the Commonwealth of Kentucky imposes certain asset requirements on insurance entities, including the Fund. As of June 30, 2013, the Fund's net deficit is at the Commonwealth's action level. As a result of this review, KSBIT took the following actions as part of a corrective action plan required by law:

- The KSBIT Pools ceased to accept new or renewal business after June 30, 2013 and entered into a runoff and wind up of business phase.

- KSBIT filed an assessment and wind up plan, to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. Factors in the assessment methodology consisted of premiums paid, the projected cost claims in each pool by district, and the number of years of participation by each district in years generating a deficit.

- In early October 2013, the Department of Insurance indicated it was exploring other options for remedying the deficit and that in light of the other options, it would not approve the novation plan submitted by KSBIT. Accordingly, KSBIT withdrew its plan to transfer the obligations to a qualified reinsurer at the request of the Department. KSBIT is currently working with the Department on the other options.

Failure to meet the capital requirements and interim capital targets included in the Fund's plan would expose the Fund to regulatory sanctions that may include restrictions on operations, mandatory assessments, and placing the Fund under regulatory control. These matters raise substantial doubt about the Fund's ability to continue going as a concern. Management's plans in regard to these matters are described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Restatement

As discussed in Note 3 to the financial statements, the 2012 financial statements have been restated. Our opinion is not modified with respect to this matter.

Board of Directors
Kentucky School Boards Insurance Trust Property and Liability Fund
Report of Independent Auditors, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying supplementary information on pages 25 - 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The supplementary information on pages 27 - 28 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Insurance of the Commonwealth of Kentucky. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audits of the financial statements. Accordingly, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013 on our consideration of the the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

October 28, 2013
Lexington, Kentucky

Kentucky School Boards Insurance Trust Property and Liability Fund

Management's Discussion and Analysis (*Unaudited*)

Our discussion and analysis of the Kentucky School Boards Insurance Trust Property and Liability Fund (the Fund) provides an overview of the Fund's financial activity for the fiscal year ended June 30, 2013. It should be read in conjunction with the consolidated financial statements, which begin on page 8.

Using this Annual Report

This report consists of a series of financial statements, notes to the financial statements, and supplemental information.

Statements of Net Position

The Kentucky League of Cities, Inc. (KLC) began administering the Kentucky School Board Insurance Trust (KSBIT) program on January 1, 2010, the middle of the July 2009 through June 2010 policy period. This resulted in the immediate transfer of responsibility for claims handling and loss control administration to KLC. The first underwriting and marketing responsibility for KLC relating to the KSBIT program begins with the July 2010 through June 2011 policy year. Effective January 1, 2010, The Trust, the Kentucky League of Cities Insurance Service Association (KLCIS), and the Department of Insurance agreed on a plan under which KLCIS would help KSBIT meet statutory surplus requirements for its Workers' Compensation Fund and Property and Liability Fund and KLCIS would administer the funds. On January 6, 2010, and pursuant to direction from the Department of Insurance, KSBIT and KLCIS entered into a Kentucky Surplus Note whereby KLCIS agreed to loan $5,500,000 to KSBIT's Workers' Compensation Fund and $2,500,000 to KSBIT's Property and Liability Fund, which promised to repay KLCIS out of surplus funds (see Note 8). Pursuant to direction by the Department of Insurance, the amount of each of the surplus notes was classified as net assets by the Trust under insurance law for purposes of calculating net worth and debt under GAAP accounting. In this agreement, KSBA agreed to endorse exclusively the KSBIT Workers' Compensation Fund and the Property and Liability Fund and to provide certain services to the Funds for a fee.

Table 1 shows all the assets and liabilities of the Fund and is presented on the accrual basis. The total net deficit increased by $1,565,034 for the current fiscal year due to the following changes.

- For the 2013 fiscal year, a reserve of $678,970 for unpaid loss adjustment expenses was recorded based on quotes received for third party administrative claims services in a runoff phase. The recording of this reserve in 2013 added $12,542 to the deficit.

- The just expired 2013 policy year experienced losses that were greater than anticipated. The 2013 financial statements reflect an underwriting loss of $2,276,251 relating mostly to adverse loss experience from multiple incidents generated by one member and legal and other professional fees associated with the proposed assessment, claims audits and expert actuarial reviews.

- The independent actuary's findings revealed $1,078,921 of favorable prior year restatements of estimates of ultimate losses due to some favorable trends and loss development.

Table 1
Net Position

	2013	2012
Cash and investments	$ 6,586,376	$ 7,897,246
Capital and other assets	4,283,012	2,508,330
Total assets	10,869,388	10,405,576
Unpaid losses and loss adjustment expenses	16,840,427	14,817,076
Other liabilities	2,858,493	2,852,998
Total liabilities	19,698,920	17,670,074
Net position	$ (8,829,532)	$ (7,264,498)

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the revenues and expenses of the Fund and is also presented on the accrual basis.

Table 2
Change in Net Position

Year ended June 30,	2013	2012
Net premiums earned	$ 9,064,108	$ 8,908,058
Investment and other (losses) gains	(86,019)	546,882
Total revenue	8,978,089	9,454,940
Losses and loss adjustment expenses	7,573,422	11,435,202
General administrative expenses	2,969,701	2,654,057
Total expenses	10,543,123	14,089,259
Change in net position	$ (1,565,034)	$ (4,634,319)

Description of Current and Expected Conditions

Despite years of work to eliminate deficits in the KSBIT pools, the latest financial statements indicated a significant increase in the deficits of both Pools, which under the law requires corrective action. While KSBIT has taken a number of steps to address the Pools' deficits including management and a loan by KLCIS in January 2010, cutting operating costs, attempting to rebuild market share, shifting to a managed care model to reduce medical costs, and increasing premium rates sharply, the deficits have grown as claims costs have escalated and a substantial number of districts have continued to leave the Pools due to competitive pressures.

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to further confirm the Pools' deficits as a precedent to levying an assessment. As a result of these reviews and after consultation with the Kentucky Department of Insurance (Department), KSBIT took the following actions as part of a corrective action plan required by law:

- The KSBIT Pools ceased to accept new or renewal business after June 30, 2013 and entered into a runoff and wind up of business phase.

- KSBIT filed an assessment and wind up plan, to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. Factors in the assessment methodology consisted of premiums paid, the projected cost claims in each pool by district, and the number of years of participation by each district in years generating a deficit.

- In early October 2013, the Department of Insurance indicated it was exploring other options for remedying the deficit and that in light of the other options, it would not approve the novation plan submitted by KSBIT. Accordingly, KSBIT withdrew its plan to transfer the obligations to a qualified reinsurer at the request of the Department. KSBIT is currently working with the Department on the other options.

- Even under the options being pursued by the Department of Insurance, it is KSBIT's understanding that a financing option negotiated by KSBA will give participating districts the choice of paying their portion of the assessment over a twenty-year period to help minimize the impact.

Contacting the Fund's Financial Management

This financial report is designed to provide a general overview of Kentucky School Boards Insurance Trust Property and Liability Fund's finances and to show the Fund's accountability to its members. If you have any questions about this report or need additional information, contact the Kentucky League of Cities office at 100 East Vine Street, Suite 800, Lexington, KY 40507.

KENTUCKY SCHOOL BOARDS INSURANCE TRUST PROPERTY AND LIABILITY FUND

Statements of Net Position

June 30, 2013 and 2012

	2013	2012
Assets		
Investment securities, at fair value	$ 3,662,111	$ 3,068,479
Cash and cash equivalents	2,924,265	4,828,767
Premium receivable (net of allowance for doubtful accounts of $52,819 and $15,773 in 2013 and 2012, respectively)	475,366	818,118
Excess insurance receivable	3,163,787	1,000,036
Receivable from related entity (Note 3)	607,681	607,681
Accrued investment income	26,334	38,746
Prepaid expenses	2,765	32,263
Property and equipment (net of accumulated depreciation of $14,956 and $10,549 for 2013 and 2012, respectively)	7,079	11,486
Total assets	10,869,388	10,405,576
Liabilities		
Unpaid losses and loss adjustment expenses:		
Reported claims	10,468,570	9,451,530
Incurred but not reported claims	6,371,857	5,365,546
Total unpaid losses and loss adjustment expenses	16,840,427	14,817,076
Accounts payable	330,179	175,605
Surplus note payable (Note 3)	2,500,000	2,500,000
Payable to related entities	28,314	110,863
Advance premiums	-	66,530
Total liabilities	19,698,920	17,670,074
Net Position		
Net position (Note 3)	$ (8,829,532)	$ (7,264,498)

See accompanying notes.

KENTUCKY SCHOOL BOARDS INSURANCE TRUST PROPERTY AND LIABILITY FUND

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenue:		
Net premiums earned	$ 9,064,108	$ 8,908,058
Operating expenses		
Losses and loss adjustment expenses	7,573,422	11,435,202
Commission expense	993,329	912,657
Claims administration expense	619,024	686,500
Professional fees	520,764	147,280
Program administrative fees	712,738	794,498
Other expenses	123,846	113,122
Total operating expenses	10,543,123	14,089,259
Operating loss	(1,479,015)	(5,181,201)
Nonoperating (loss) revenue:		
Interest and investment revenue and gains	38,914	671,882
Interest expense	(125,000)	(125,000)
Other income	67	-
Total nonoperating (loss) revenue	(86,019)	546,882
Change in net position	(1,565,034)	(4,634,319)
Net position at beginning of year, as previously reported		(737,860)
Restatement (Note 3)		(1,892,319)
Net position at beginning of year, as restated	(7,264,498)	(2,630,179)
Net position at end of year	$ (8,829,532)	$ (7,264,498)

See accompanying notes.

KENTUCKY SCHOOL BOARDS INSURANCE TRUST PROPERTY AND LIABILITY FUND

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Premiums collected	$ 9,377,376	$ 8,453,055
Losses and loss adjustment expenses paid	(5,550,071)	(8,355,171)
Underwriting expenses	(4,488,843)	(901,163)
Other payments	(555,676)	(309,347)
Net cash used in operating activities	(1,217,214)	(1,112,626)
Cash flows from investing activities:		
Purchases of investments	(2,297,745)	(1,467,459)
Proceeds from maturity of investments	490,852	1,267,486
Proceeds from sale of investments	1,028,069	3,580,613
Interest and dividends received	236,585	605,684
Net cash (used in) provided by investing activities	(542,239)	3,986,324
Cash flows from capital and financing activities:		
Change in payable to related parties	(82,549)	(1,607,477)
Interest paid	(62,500)	(125,000)
Net cash used in financing activities	(145,049)	(1,732,477)
Net (decrease) increase in cash and cash equivalents	(1,904,502)	1,141,221
Cash and cash equivalents, beginning of year	4,828,767	3,687,546
Cash and cash equivalents, end of year	$ 2,924,265	$ 4,828,767

KENTUCKY SCHOOL BOARDS INSURANCE TRUST PROPERTY AND LIABILITY FUND

Statements of Cash Flows, continued

Years ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (1,479,015)	$ (5,181,201)
Adjustments:		
Depreciation	4,407	4,407
Provision for doubtful accounts	37,046	4,227
Increase (decrease) in cash due to changes in:		
Premium receivable	305,706	(393,635)
Excess insurance receivable	(2,163,751)	1,492,492
Prepaid expenses	29,498	(24,059)
Unpaid losses and loss adjustment expenses	2,023,351	3,080,031
Accounts payable	92,074	(33,520)
Advance premiums	(66,530)	(61,368)
Net cash used in operating activities	$ (1,217,214)	$ (1,112,626)

See accompanying notes.

1. Description of Organization

The Kentucky School Boards Insurance Trust (KSBIT, or the Trust) was organized by the Kentucky School Boards Association (KSBA, or the Association) effective July 7, 1978. The Trust established a Property Insurance Fund to provide a program for property insurance coverage for Association members and their related agencies. The Trust also established a Liability Insurance Fund to provide a program for general liability, educator's legal liability, auto liability and auto physical damage (fleet) insurance coverage for Association members and their related agencies. The Board of Trustees subsequently determined that it would be in the best interest of its members to combine the two funds and, effective June 30, 2007, merged these two funds to form the Property and Liability Fund (the Fund). These financial statements represent the financial position, results of operations, change in net deficit and cash flows of the merged Fund. All school districts, non-profit institutions of higher education, and other tax supported agencies of Kentucky who are members of the Association are eligible to participate.

Participating members make contributions to the Fund based upon premium rates determined by the Fund. Members may be subject to contribution assessments in the event of deficiencies in the Fund's net assets. Members may withdraw from the Fund by giving 60 days written notice. The Fund can terminate coverage if it is unable to obtain acceptable excess excess insurance coverage, or for any reason, by giving 90 day notice. In the event the Fund terminates coverage, any amount remaining in the Fund, after payment of operational and administrative costs and claim for which coverage was provided, will be returned to members on a pro rata basis. As of June 30, 2013 and 2012, the Fund had 90 and 93 participants, respectively.

The Trust has also sponsored and organized a Workers' Compensation Fund and an Unemployment Compensation Fund.

Effective January 1, 2010, The Trust, the Kentucky League of Cities Insurance Service Association (KLCIS), and the Department of Insurance agreed on a plan under which KLCIS would help KSBIT meet statutory surplus requirements for its Workers' Compensation Fund and Property and Liability Fund and KLCIS would administer the funds. On January 6, 2010, and pursuant to direction from the Department of Insurance, KSBIT and KLCIS entered into a Kentucky Surplus Note whereby KLCIS agreed to loan $5,500,000 to KSBIT's Workers' Compensation Fund and $2,500,000 to KSBIT's Property and Liability Fund, which promised to repay KLCIS out of surplus funds (see Note 8). Pursuant to direction by the Department of Insurance, the amount of each of the surplus notes was classified as net assets by the Trust under insurance law for purposes of calculating net worth and debt under GAAP accounting. In this agreement, KSBA agreed to endorse exclusively the KSBIT Workers' Compensation Fund and the Property and Liability Fund and to provide certain services to the Funds at a fee equal to one and one-quarter percent (1.25%) of annual gross billed premiums of the Funds, but not to exceed $500,000 in any fiscal year.

1. **Description of Organization, continued**

Following is a description of the most significant risks facing property/casualty insurers and how the Fund mitigates those risks:

Legal/Regulatory Risk

Legal/regulatory risk is the risk that changes in the legal or regulatory environment in which an insurer operates will occur and create additional losses or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create cost for the insurer beyond those currently recorded in the financial statements. The Fund is exposed to this risk by writing all of its business in Kentucky, thus increasing its exposure to a single jurisdiction. This risk is reduced by underwriting and loss adjusting practices that identify and minimize the adverse impact of this risk.

Credit Risk

Credit risk is the risk that issuers of securities owned by an insurer will default or that other parties, including excess insurers, that owe the insurer money will not pay. The Fund minimizes this risk by adhering to a conservative investment strategy, by utilizing financially sound excess insurers, by maintaining credit and collection policies, and by providing an allowance for any amounts deemed collectible.

Interest Rate Risk

Interest rate risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. The Fund mitigates this risk by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, an issuer would have to sell assets prior to maturity and recognize a gain or loss. The Fund uses the segmented time distribution method to measure interest rate risk.

Geographic Risk

Geographic risk is the risk that catastrophic losses will occur in one concentrated area where the Fund does business. The Fund writes all of its business in Kentucky. The Fund mitigates this risk by adhering to specified underwriting practices and by obtaining catastrophic excess insurance coverage.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Fund uses the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

The Fund presents its financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As a proprietary activity, the Fund has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* Therefore, the Fund follows GASB pronouncements and all Financial Accounting Standards Board and predecessor boards' pronouncements except those that conflict with or contradict GASB pronouncements.

For 2013, the Fund implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the Fund's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of unpaid losses and loss adjustment expenses. In connection with the determination of unpaid losses and loss adjustment expenses, management uses the methodology described later in this footnote in "Unpaid Losses and Loss Adjustment Expenses".

Management believes that the liability for unpaid losses and loss adjustment expenses is adequate. While management uses available information to estimate unpaid losses and loss adjustment expenses, future changes to the liability may be necessary based on claims experience and changing claims frequency and severity conditions, as well as changes in doctrine of legal liability and damage awards in Kentucky. The future changes will be charged or credited to expenses when they occur.

2. Summary of Significant Accounting Policies, continued

Investment Securities

Investment securities consist of fixed maturity debt and equity securities that the Fund intends to use as part of its asset/liability management policy and securities that may be sold in response to unexpected liquidity needs.

Investment securities are stated at fair value based, generally, on quoted market prices. Changes in the fair value of investment securities are reported as revenue. The specific identification method is used to determine the cost of securities sold. Realized and unrealized gains and losses are included in interest and investment revenue, under nonoperating revenue.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of money market fund investments. For purpose of the statement of cash flows, the Fund considers all short-term investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

In accordance with accounting principles generally accepted in the insurance industry, the Fund records audit premiums as of the fiscal year in which they were earned. The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible uncollectible accounts based on prior experience. Amounts are charged against the allowance when management determines that collectability is doubtful.

Property and Equipment

Property and equipment consists of furniture and fixtures. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Premium Revenue

Premiums for contracts are recognized as earned on a pro rata basis over the contract period. Advance premiums relate to premiums paid by members for insurance coverage for the subsequent insurance period. Policy coverage is matched with revenue so as to result in recognition of profits over the life of the policies through establishment of reserves for incurred claims.

2. Summary of Significant Accounting Policies, continued

Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses are based on estimates of the ultimate cost of claims (including future claims adjustment expense) that have been reported but not settled, and of claims that have been incurred but not yet reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation and excess insurance recoverable on unpaid claims are deducted form the liability for unpaid claims. Because actual claims cost depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs in implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Excess Insurance

Excess insurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the excess insurance contracts. Premiums, losses, and loss adjustment expenses are reported net of excess insured amounts. The Fund evaluates the financial condition of its excess insurers to minimize its exposure to significant losses from excess insurer insolvencies. The Fund holds funds and collateral as security under excess insurance agreements in the form of letters of credit for any excess insurers not subject to the regulation of the Kentucky Commissioner of Insurance. In the opinion of management, all amounts due from excess insurers at June 30, 2013 and 2012 are recoverable.

Net Position

The Fund's Board of Trustees may, at its discretion, refund to members the savings, if any, resulting from operations of the Fund in the form of dividends or reduced premiums. The amount of any future dividends or reductions in premiums is dependent on the Fund's ultimate liability for claims incurred and, accordingly, the amount may differ from net position. No refunds were issued during 2013 or 2012

In the event of adverse loss experience, the Fund can assess additional amounts to the members. An assessment would be computed and established by the Board of Trustees with each member's share being based on a portion of premiums and losses. There have been no assessments levied since the inception of the Fund. See Note 9 regarding a likely assessment as part of the Fund's corrective action plan.

2. Summary of Significant Accounting Policies, continued

Federal Income Taxes

The Internal Revenue Service has ruled that the income of the Fund is excludable from gross income, and therefore, exempt from taxation pursuant to Internal Revenue Code Section 115, which pertains to instrumentalities of state and local governments.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through October 28, 2013, the date that the financial statements were available to be issued. See Note 9 for management's corrective action plan and assessment of current and past participating members.

3. Restatement

During 2013, the Fund changed its accounting for $607,681 in funds it had previously transferred to a related party, KSBITWCF. During 2013, management of both the Fund and KSBITWCF elected to classify the transfer as a loan. This change resulted in the net position of the Fund at July 1, 2011 being increased by $607,681 via a receivable from related entity of $607,681 being recorded. See Note 6 for additional information regarding this receivable.

During 2013, the Fund changed its accounting treatment of the surplus note agreement. As directed by the Department of Insurance, management had previously recorded the surplus in net position, as opposed to a note payable. This change resulted in the net position at July 1, 2011 being reduced by $2,500,000 via a surplus note payable of $2,500,000 being recorded. See Note 9 for additional information regarding this note.

Neither of these changes in accounting had any effect on 2013's change in net position or cash flows.

4. Deposits and Investments

The composition of the Fund's investment portfolio must meet certain criteria as set forth in the Kentucky Revised Statues. Investments held by the Fund as of June 30, 2013 and 2012 are as follows:

	2013	2012
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	$ 1,331,105	$ 4,527,973
Money market mutual funds	1,593,160	300,794
	2,924,265	4,828,767
Investments classified as investment securities:		
Municipal bonds	2,351,880	1,936,147
U.S. government agency obligations	-	783,444
Equity mutual funds	1,109,787	132,595
Equity securities	200,444	216,293
	3,662,111	3,068,479
Total deposits and investments	$ 6,586,376	$ 7,897,246

As of June 30, 2013, the Fund had the following investment maturities in years:

	Less than 1	1-5	6-10	More than 10
Municipal bonds	$ -	$ 1,262,566	$ 242,478	$ 846,836

Interest and investment revenue is comprised of the following for the years ended June 30, 2013 and 2012:

	2013	2012
Interest and dividend income	$ 120,330	$ 181,451
Realized gains on sales of securities	103,776	411,155
Unrealized (losses) gains on securities	(185,192)	79,276
	$ 38,914	$ 671,882

4. Deposits and Investments, continued

Credit Risk

State law requires that no individual equity holding shall comprise greater than 10% of the equity portion of the portfolio at the time of purchase. It also states that an investment in an individual holding shall not represent at the time of purchase more than 5% of the market value of the holding. Furthermore, state law requires that investments in equities shall not exceed 20% of the total market value of the portfolio of the self-insurance group at the time of purchase. In addition, mutual funds that are registered investment advisors licensed by the Securities Exchange Commission and Commonwealth of Kentucky to perform investment services are allowable and shall not exceed 20% of the total market value of the portfolio at the time of purchase.

Custodial Credit Risk - Deposits

The Fund maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk related to cash. Cash equivalents include investments in a money market fund that are not federally insured.

5. Excess Insurance Coverage

The Fund's Board of Trustees authorized the purchase of excess insurance coverage in order to reduce the ultimate loss exposure arising from large losses in the liability and property pools. The Fund purchases specific excess of loss insurance coverage for protection against losses in excess of specified amounts per occurrence. Policy limits vary based upon the type and amount of insured risk. Excess insurance premiums are based upon a percentage of average daily attendance, number of vehicles, or total insured values.

For 2013 and 2012, respectively, the Fund purchased excess insurance coverage for the liability pool from Brit Insurance, excess insurance carrier with a rating of "B++", and Lexington Insurance Company, excess insurance carrier with a rating of "A+" (Superior) by A.M. Best and Company. The Fund purchased a buffer layer of excess insurance, defined as $650,000 in excess of $350,000, as specific excess insurance coverage per occurrence.

Excess insurance coverage for the property pool for 2013 and 2012 is purchased from various excess insurers, each of which has been assigned a rating of "A+" (Superior) by A.M. Best and Company. The Fund purchased specific excess of loss insurance for losses above $500,000. For 2013 and 2012, once the aggregate loss, $1,500,000, is reached, a $25,000 per claim deductible reduces the recoverable amount.

Although the purchase of excess insurance coverage does not discharge the Fund from it primary liability to its members, the excess insurance company that assumes the coverage assumes the related liability, and it is the practice of organizations such as the Fund for accounting purposes to treat insured risks, to the extent of excess insurance coverage, as though they were risks for which the Fund is not liable. However, the Fund remains contingently liable in the event its excess insurers are unable to meet their contractual obligations.

5. Reinsurance, continued

Excess insurance premiums ceded were $5,285,922 and $4,377,981 for the years ended June 30, 2013 and 2012, respectively. Additional recoveries accrued on paid claims during 2013 and 2012 were $21,329,665 and $4,416,598, respectively. The liability for unpaid losses and loss adjustment expenses has been reduced to reflect excess insurance recoverables on policy case reserves and estimated recoverables on claims incurred but not reported by $15,356,589 and $30,840,084 in 2013 and 2012, respectively.

6. Related Party Transactions

The following entities are the Fund's related entities:

Kentucky League of Cities (KLC)
Kentucky League of Cities Insurance Agency (KLCIA)
Kentucky League of Cities Premium Finance Company (KLCPFC)
Kentucky League of Cities Unemployment Compensation Reimbursement Trust (KLCUCRT)
Kentucky League of Cities Workers Compensation Trust (KLCWCT)
Kentucky League of Cities Insurance Services Association (KLCIS)
Kentucky School Boards Insurance Trust Workers Compensation Fund (KSBITWCF)

Through December 31, 2009, the Fund occupied office space from and had an Administrative Agreement with Kentucky School Board Association (KSBA) to provide management and administrative services for the Fund. As of January 1, 2010, the KSBA agreed to endorse exclusively the Fund and to provide certain services to the Fund at a fee equal to one and one-quarter percent (1.25%) of annual gross billed premiums of the funds, but not to exceed $500,000 in any fiscal year. The amounts paid tó KSBA by the Fund were $130,392 and $130,253 for 2013 and 2012, respectively.

The Fund reports amounts as being due from or due to related parties. Related party receivables and payables included within the Fund's statements of net position consist of the following as of June 30:

	2013	2012
Property fund accounts receivable	$ 684,758	$ 2,041,004
KSBITWCF accounts payable	(28,314)	(110,863)
Liability fund account payable	(684,758)	(2,041,004)
Total payable to related entities	$ (28,314)	$ (110,863)

KSBITWCF borrowed $607,681 from the Fund in 2003. The amount was expected to be a temporary borrowing between the funds and is payable upon demand without interest.

7. Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses for the years ended June 30, 2013 and 2012 is summarized as follows:

	2013	2012
Net unpaid losses and loss adjustment expenses, beginning of year	$ 14,817,076	$ 11,737,045
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	8,602,343	8,663,909
Increase (decrease) in provision for insured events of prior years	(1,028,921)	2,771,293
Total incurred losses and loss adjustment expenses	7,573,422	11,435,202
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	1,752,469	2,770,122
Losses and loss adjustment expenses attributable to insured events of prior years	3,797,602	5,585,049
Total payments	5,550,071	8,355,171
Net unpaid losses and loss adjustment expenses, end of year	$ 16,840,427	$ 14,817,076

An increase (decrease) in the provision for insured events of prior years signifies that the Fund expects higher (lower) than anticipated ultimate losses in the final disposition of claims.

8. Surplus Note Agreement

On January 6, 2010, and pursuant to direction from the Department of Insurance, KSBIT and KLCIS entered into a Kentucky Surplus Note whereby KLCIS agreed to loan $5,500,000 to KSBIT's Workers' Compensation Fund and $2,500,000 to KSBIT's Property and Liability Fund, which promised to repay KLCIS out of surplus funds. Pursuant to direction by the Department of Insurance, the amount of each of the surplus notes was classified as net assets by the Trust under insurance law for purposes of calculating net worth and debt under GAAP accounting. Interest is due quarterly until each note is paid in full. Interest is calculated at a rate per annum which shall be equal to the sum of the year to date yield on the S&P Index weighted at 20% plus the year to date yield on the Bar Cap Index weighted at 80%. Provided, however, in no event shall the annual interest rate be less than 1% or greater than 5%. These notes have no fixed maturity date. KLCIS expects to recover the entire $8 million through the assessment process discussed in Note 9.

9. Going Concern Considerations and Management's Plans (*Unaudited*)

Description of Current and Expected Conditions

The Fund's financial statements are prepared on the going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Due to deficits reflected in its June 30, 2011 financials and continuing to develop during 2012 and 2013, the Fund determined that liabilities could not be satisfied in the ordinary course of business and that an assessment of members would be necessary to satisfy obligations and eliminate Fund deficits.

Thus, despite years of work to eliminate deficits in the KSBIT pools, the latest financial statements indicated a significant increase in the deficits of both Pools, which under the law requires corrective action. While KSBIT has taken a number of steps to address the Pools' deficits including management and a loan by KLCIS in January 2010, cutting operating costs, attempting to rebuild market share, shifting to a managed care model to reduce medical costs, and increasing premium rates sharply, the deficits have grown as claims costs have escalated and a substantial number of districts have continued to leave the Pools due to competitive pressures.

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to further confirm the Pools' deficits as a precedent to levying an assessment. As a result of these reviews and after consultation with the Kentucky Department of Insurance (Department), KSBIT took the following actions as part of a corrective action plan required by law:

- The KSBIT Pools ceased to accept new or renewal business after June 30, 2013 and entered into a runoff and wind up of business phase.

- KSBIT filed an assessment and wind up plan, to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. Factors in the assessment methodology consisted of premiums paid, the projected cost claims in each pool by district, and the number of years of participation by each district in years generating a deficit.

- In early October, 2013 the Department of Insurance indicated it was exploring other options for remedying the deficit and that in light of the other options, it would not approve the novation plan submitted by KSBIT. Accordingly, KSBIT withdrew its plan to transfer the obligations to a qualified reinsurer at the request of the Department. KSBIT is currently working with the Department on the other options.

- Even under the options being pursued by the Department of Insurance, it is KSBIT's understanding that a financing option negotiated by KSBA will give participating districts the choice of paying their portion of the assessment over a twenty-year period to help minimize the impact.

DORTON

DEAN DORTON ALLEN FORD PLLC

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Kentucky School Boards Insurance Trust Property and Liability Fund
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kentucky School Boards Insurance Trust Property and Liability Fund (the Fund) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

106 W. Vine Street, Suite 600 Lexington, KY 40507 859-255-2341 phone 859-255-0125 fax
500 W. Jefferson Street, Suite 1800 Louisville, KY 40202 502-589-6050 phone 502-581-9016 fax
dorton.com

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

October 28, 2013
Lexington, Kentucky

Supplementary Information

KENTUCKY SCHOOL BOARDS INSURANCE TRUST PROPERTY AND LIABILITY FUND

Statements of Net Position Information

June 30, 2013 and 2012

	2013			2012		
Assets	Liability Pool	Property Pool	Total	Liability Pool	Property Pool	Total
Investment securities, at fair value	$ 3,662,111	$ -	$ 3,662,111	$ 3,068,479	$ -	$ 3,068,479
Cash and cash equivalents	2,924,265	-	2,924,265	4,828,767	-	4,828,767
Premium receivable, net	470,229	5,137	475,366	825,695	(7,577)	818,118
Excess insurance receivable	308,749	2,855,038	3,163,787	146,467	853,569	1,000,036
Receivable from related entity	607,681	-	607,681	607,681	-	607,681
Accrued investment income	26,334	-	26,334	38,528	218	38,746
Prepaid expenses	1,495	1,270	2,765	19,165	13,098	32,263
Property and equipment, net	3,224	3,855	7,079	5,188	6,298	11,486
Total assets	8,004,088	2,865,300	10,869,388	9,539,970	865,606	10,405,576
Liabilities						
Unpaid losses and loss adjustment expenses:						
Reported claims	10,324,025	144,545	10,468,570	9,092,417	359,113	9,451,530
Incurred but not reported claims	5,574,507	797,350	6,371,857	5,185,906	179,640	5,365,546
Accounts payable	248,073	82,106	330,179	120,325	55,280	175,605
Surplus note payable	2,500,000	-	2,500,000	2,500,000	-	2,500,000
Payable to (receivable from) related entities	723,764	(695,450)	28,314	2,151,867	(2,041,004)	110,863
Advance premiums	-	-	-	38,545	27,985	66,530
Total liabilities	19,370,369	328,551	19,698,920	19,089,060	(1,418,986)	17,670,074
Net Position						
Net position	$ (11,366,281)	$ 2,536,749	$ (8,829,532)	$ (9,549,090)	$ 2,284,592	$ (7,264,498)

See report of independent auditors.

KENTUCKY SCHOOL BOARDS INSURANCE TRUST PROPERTY AND LIABILITY FUND

Statements of Revenues, Expenses and Changes in Net Position Information

Years ended June 30, 2013 and 2012

	2013			2012		
	Liability Pool	Property Pool	Total	Liability Pool	Property Pool	Total
Operating revenue:						
Net premiums earned	$ 6,313,940	$ 2,750,168	$ 9,064,108	$ 6,011,074	$ 2,896,984	$ 8,908,058
Operating expenses:						
Losses and loss adjustment expenses	6,141,118	1,432,304	7,573,422	9,411,582	2,023,620	11,435,202
Commission expense	588,014	405,315	993,329	550,856	361,801	912,657
Claims administration expense	370,740	248,284	619,024	415,277	271,223	686,500
Professional fees	376,243	144,521	520,764	111,367	35,913	147,280
Program administrative fees	424,140	288,598	712,738	473,293	321,205	794,498
Other expenses	106,629	17,217	123,846	70,040	43,082	113,122
Total operating expenses	8,006,884	2,536,239	10,543,123	11,032,415	3,056,844	14,089,259
Operating (loss) income	(1,692,944)	213,929	(1,479,015)	(5,021,341)	(159,860)	(5,181,201)
Nonoperating (loss) revenue						
Interest and investment revenue and gains	686	38,228	38,914	647,663	24,219	671,882
Interest expense	(125,000)	-	(125,000)	(125,000)	-	(125,000)
Other income	67	-	67	-	-	-
Total nonoperating (loss) revenue	(124,247)	38,228	(86,019)	522,663	24,219	546,882
Change in net position	(1,817,191)	252,157	(1,565,034)	(4,498,678)	(135,641)	(4,634,319)
Net position at beginning of year, as previously reported	-	-	-	(3,158,093)	2,420,233	(737,860)
Restatement (Note 3)	-	-	-	(1,892,319)	-	(1,892,319)
Net position at beginning of year, as restated	(9,549,090)	2,284,592	(7,264,498)	(5,050,412)	2,420,233	(2,630,179)
Net position at end of year	$ (11,366,281)	$ 2,536,749	$ (8,829,532)	$ (9,549,090)	$ 2,284,592	$ (7,264,498)

See report of independent auditors.

KENTUCKY SCHOOL BOARDS INSURANCE TRUST PROPERTY AND LIABILITY FUND

Claims Development Information (*Unaudited*)

Years ended June 30, 2013 and 2012

The following table illustrates how the Association's earned premium revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by the Association as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross premium revenue and investment revenue, premium revenue ceded to excess insurers, and net earned premium revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of the Association including overhead and claims expense not allocable to individual claims. (3) This line shows the Association's gross incurred claims and allocated claims adjustment expenses, claims assumed by excess insurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported as of the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest reestimated amount of claims assumed by excess insurers as of the end of the current year for each accident year. (6) This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.) (7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

		Property Pool									
		Fiscal and Policy Year Ended									
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
(1)	Earned premium revenue and net investment income	$ 1,397,295	$ 2,194,944	$ 2,777,819	$ 3,163,293	$ 2,073,833	$ 2,487,385	$ 1,801,275	$ 3,091,931	$ 2,921,203	$ 2,788,396
(2)	Unallocated expenses	710,656	874,883	828,919	909,114	818,699	882,609	985,781	1,206,828	1,033,222	1,103,935
(3)	Estimated incurred claims and expenses, end of policy year	1,218,906	1,364,199	935,796	1,124,101	1,669,949	1,625,747	1,420,286	1,747,733	1,688,368	1,624,326
(4)	Net paid (cumulative) as of:										
	End of policy year	766,707	689,069	637,451	799,691	1,660,324	1,631,644	1,157,006	1,433,730	857,190	703,006
	One year later	1,250,642	1,243,572	847,566	1,086,609	1,668,523	2,002,883	1,372,171	1,870,803	1,688,368	
	Two years later	1,259,956	1,309,715	933,127	1,110,213	1,833,252	1,625,747	1,401,184	1,747,733		
	Three years later	1,259,956	1,307,398	954,189	1,124,588	1,615,752	1,625,747	1,420,286			
	Four years later	1,259,956	1,452,156	954,189	1,124,101	1,669,949	1,625,747				
	Five years later	1,237,005	1,391,656	954,189	1,124,101	1,669,949					
	Six years later	1,237,006	1,391,656	935,796	1,124,101						
	Seven years later	1,218,906	1,364,199	935,796							
	Eight years later	1,218,906	1,364,199								
	Nine years later	1,218,906									
(5)	Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-
(6)	Reestimated net incurred claims and expenses:										
	End of policy year	1,281,228	1,422,121	884,590	1,091,171	1,685,758	1,795,579	1,549,481	2,329,868	1,688,368	1,624,326
	One year later	1,284,120	1,252,969	964,028	1,153,111	1,673,435	2,018,105	1,422,871	1,870,803	1,688,368	
	Two years later	1,259,956	1,312,513	972,922	1,134,332	1,833,964	1,625,747	1,415,424	1,747,733		
	Three years later	1,259,956	1,309,235	954,189	1,130,901	1,615,752	1,625,747	1,420,286			
	Four years later	1,259,956	1,455,694	954,189	1,135,118	1,669,949	1,625,747				
	Five years later	1,237,006	1,391,656	954,189	1,124,101	1,669,949					
	Six years later	1,237,006	1,391,656	935,796	1,124,101						
	Seven years later	1,218,926	1,364,199	935,796							
	Eight years later	1,218,906	1,364,199								
	Nine years later	1,218,906									
(7)	Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	(62,322)	(57,922)	51,206	32,930	(15,809)	(169,832)	(129,195)	(582,135)	-	-

See report of independent auditors.

KENTUCKY SCHOOL BOARDS INSURANCE TRUST PROPERTY AND LIABILITY FUND

Claims Development Information (*Unaudited*)

Years ended June 30, 2004 through 2013

The following table illustrates how the Association's earned premium revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by the Association as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross premium revenue and investment revenue, premium revenue ceded to excess insurers, and net earned premium revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of the Association including overhead and claims expense not allocable to individual claims. (3) This line shows the Association's gross incurred claims and allocated claims adjustment expenses, claims assumed by excess insurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported as of the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest reestimated amount of claims assumed by excess insurers as of the end of the current year for each accident year. (6) This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.) (7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	Liability Pool									
	Fiscal and Policy Year Ended									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
(1) Earned premium revenue and net investment income	$ 4,522,943	$ 5,111,929	$ 5,279,302	$ 5,887,269	$ 5,768,638	$ 5,190,053	$ 5,399,437	$ 5,427,592	$ 5,698,713	$ 6,477,708
(2) Unallocated expenses	1,371,039	1,632,868	1,806,516	1,478,398	1,255,018	1,277,964	1,543,973	1,715,952	1,620,839	1,865,766
(3) Estimated incurred claims and expenses, end of policy year	3,501,146	3,604,619	5,098,058	4,523,098	6,479,016	5,499,384	4,552,738	4,585,794	7,350,934	6,660,313
(4) Net paid (cumulative) as of:										
End of policy year	949,245	1,060,386	1,381,906	1,183,603	1,856,197	1,200,757	921,171	1,149,351	1,912,832	1,049,463
One year later	1,744,849	2,363,995	2,315,467	2,314,647	2,971,865	2,389,290	1,905,954	2,051,467	3,139,850	
Two years later	2,838,751	2,655,463	3,059,396	2,831,529	4,111,595	2,891,291	2,658,388	2,659,065		
Three years later	2,904,455	2,867,014	3,478,913	2,997,897	5,250,185	4,161,537	3,056,875			
Four years later	3,357,588	3,119,087	4,017,483	3,432,701	5,819,827	4,398,765				
Five years later	3,470,197	3,251,081	4,349,791	3,889,850	6,008,170					
Six years later	3,631,120	3,427,585	4,772,802	4,390,080						
Seven years later	3,770,571	3,549,619	4,858,117							
Eight years later	3,501,147	3,553,431								
Nine years later	3,501,146									
(5) Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-
(6) Reestimated net incurred claims and expenses:										
End of policy year	4,270,835	4,176,833	4,536,098	4,601,400	5,142,590	4,838,423	4,052,723	4,638,745	7,307,156	6,660,313
One year later	3,969,060	4,161,451	4,780,305	4,875,692	5,848,632	4,783,720	4,103,081	4,950,697	7,350,934	
Two years later	4,136,525	4,061,811	4,780,522	4,262,655	6,094,561	5,041,304	4,340,391	4,585,794		
Three years later	3,821,079	3,732,007	4,919,748	4,135,065	6,427,617	5,746,934	4,552,738			
Four years later	3,816,531	3,728,597	4,865,662	4,039,388	6,654,342	5,499,384				
Five years later	3,910,168	3,778,024	4,549,877	4,544,173	6,479,016					
Six years later	3,797,632	3,810,893	5,127,354	4,523,098						
Seven years later	3,966,839	3,550,619	5,098,058							
Eight years later	3,508,457	3,604,619								
Nine years later	3,501,146									
(7) Increase (decrease) in estimated net incurred claims and expenses from the end of the policy year	(769,689)	(572,214)	561,960	(78,302)	1,336,426	660,961	500,015	(52,951)	43,778	-

See report of independent auditors.

PLAN OF INITIAL ASSESSMENT FOR THE KENTUCKY SCHOOL BOARD INSURANCE TRUST PROPERTY AND LIABILITY FUND

Submitted by Sharon P. Clark, Rehabilitator

&

Joseph N. Pope, Special Deputy Rehabilitator

November 7, 2013

I. BACKGROUND

Kentucky School Boards Insurance Trust ("KSBIT") was created in 1978 to provide coverage through nonprofit self-insurance funds authorized under Kentucky law. These self-insurance funds allowed school districts to combine their resources while sharing the risk. There are two separate self-insurance funds within KSBIT, both of which are in a deficit position. The two self-insurance funds are the Workers' Compensation Self-Insurance Fund and the Property and Liability Pool. This Plan relates to the Property and Liability Self-Insurance Fund, which is a property and liability self-insured group authorized by KRS 304.48-040 and defined in KRS 304.48-030 ("P & L Fund").

The P & L Fund is the entity created on June 30, 2007, as the result of a merger with two prior group self-insurance funds, the Kentucky School Board Insurance Trust Property Fund and the Kentucky School Board Insurance Trust Liability Fund.

Kentucky School Board Association ("KSBA") is the sponsoring organization of the P & L Fund. The KSBA is an association composed of school districts and school boards located throughout the Commonwealth of Kentucky. All school districts, non-profit institutions of higher education, and other tax supported agencies of Kentucky who are members of KSBA are eligible to participate in the P & L Fund. The P & L Fund members have pooled their liability and property insurance risks on a group self-insured basis under the provisions of KRS 304.48. In order to participate in the P & L Fund, the member must be a member of KSBA and must agree to jointly and severally bind themselves to pay the pooled liabilities of the P & L Fund.

On January 14, 2013, the Board of Trustees of the P & L Fund notified members that it would no longer accept new or renewal business and current members' coverage would end effective June 30, 2013. This placed the P & L Fund in a state of runoff, with runoff meaning that no new policies were being issued and the sole purpose of the operations of the P &L Fund is to process and pay all insurance claims and legal liabilities and obligations arising from operations and policies issued by the P & L Fund prior to June 30, 2013.

The financial condition of the P & L fund is such that it does not have adequate assets to discharge its legal liabilities. The P & L Fund has been placed into Rehabilitation pursuant to KRS 304.33. Under the provisions of KRS 304.48-250 and KRS 304.33-160, this plan of assessment has been prepared in order for the P&L Fund to obtain additional assets in order to meet all its legal liabilities and obligations.

II. BASIS FOR ASSESSMENT

1. The audited financial statements as of June 30, 2013 reflect a deficit (assets less than liabilities) in the amount of $8,829,533, see Exhibit A.
2. The above deficit has been adjusted as follows (see Exhibit A adjustments):
    a. The P & L Fund financial statement reflects as an asset a receivable arising from a transaction with an affiliate in 2003 in the amount of $607,681.
        i. The P & L Fund has provided no adequate documentation for the basis of this receivable.
        ii. There are third party reports that indicate that this amount had been repaid.
        iii. There appears to be a receipt reported in 2009 of a similar amount ($600,000).

iv. The amount is not being considered as a legal liability of the affiliate that "owes" this amount.

v. Therefore, this asset should not be considered a valid asset of the P & L Fund. This increases the deficit to $9,437,214.

b. The Rehabilitator, in her capacity as the Kentucky Commissioner of Insurance, has engaged and obtained an actuarial study to determine the unpaid claim liabilities of the P & L Fund as of June 30, 2013. This actuarial report indicates that the unpaid claims liabilities are $16,127,676. This amount is $712,751 less than the liability reflected in the financial statements, decreasing the deficit by that amount to $8,724,463.

c. The P & L Fund issued a "Surplus Note" in 2010 with an outstanding balance of $2,500,000 as of June 30, 2013. The terms of the note indicate that this is not to be considered a legal liability of the P & L Fund. As a result this note has been eliminated as a liability and the deficit has been reduced by that amount to $6,224,463.

3. The Rehabilitator's Deputy has estimated that the P &L fund will require administrative closure costs in the amount of $6,310,000. These costs are to include the continuation of claims administration, professional and other costs required to process and pay all (more than $34 million) claims arising from the policies of insurance issued by the P&L Fund. This amount includes an estimate for potential litigation.

4. The total amount of the assessment necessary is $12,534,463. Exhibit B reflects the detail of this calculation.

III. ALLOCATION TO YEARS

1. An assessment of a group self-insurance fund should only be applicable to those members during the period of time in which the deficit requiring the assessment began and members should only be assessed for periods of time while they were members receiving coverage from the fund.

2. The Deputy Rehabilitator has determined that the P & L Fund's current deficit began during the year of July 1, 2007 through June 30, 2008. Exhibit C reflects the estimate of the P & L Fund's surplus or deficit using the current actuarial study's estimate for unpaid claim liabilities as of the end of previous periods. Based on this analysis, using 2013 hindsight, the P&L Fund had a surplus as of June 30, 2007 (the date of the merger), however, the results of operations in that next year (period ending June 30, 2008) resulted in a deficit. The P&L Fund never emerged from this deficit position in any subsequent year.

3. KRS 304.48-150(3), indicates that a member that is canceled or elects to be terminated from any such fund remains obligated for periods during which he was a member. This plan of assessment follows this provision, by evaluating each year to determine how much of any such deficit (and assessment) should be allocated to each year and ultimately to each member within each year. Exhibit D reflects the comparison of each year's income or loss and estimates the percentage of any assessment that should be allocated to each year.

4. This Exhibit D utilizes the current actuarial study to recreate comparative income statements for each year ending June 30, 2008 through June 30, 2013. As reflected each year's (with a loss) loss is pro-rated with the total loss for all years. This becomes the pro-rata share of any assessment applicable to each year. The percentages for each year being assessed are also reflected in Exhibit D.
5. This method of allocation prevents members that participated in only one or two of the years from being assessed for periods after they may have left the P & L Fund.

IV. ALLOCATION TO EACH MEMBER

1. Each member that obtained insurance coverage in each year is allocated a share of that year's assessment.
2. This plan utilizes a 60% - 40% allocation to each member based on earned premiums (60%) and Excess Losses.
3. The 60% earned premium allocation is simply 60% of the assessment for each year is allocated to each member in a pro-rated basis or share of each member earned premium to the total earned premium for each year.
4. The 40% Excess Loss is also a pro-rated basis using each members excess losses to the total excess losses for each year.
5. The Excess Loss amount was determined by calculating a loss ratio for each member in each year. This loss ratio is the total incurred losses divided by each members earned premium. For any member with a loss ratio greater than 80%, the portion greater than 80% is the excess amount. Each member's excess loss amount is then

pro-rated by all members' excess losses for each year. That percentage is then applied against 40% of the assessment for each year.

6. The purpose of this loss allocation is to identify those members with more losses and have those members pay a greater share of the assessment.
7. In order to have all members' loss ratios to be on a comparable basis, each open claim case reserve is adjusted by the same relationship (ratio) between the actuarial study reserve for each year and the total case reserves created by the claim administrator. These adjusted incurred amounts for each claim are also limited to $100,000 before any loss ratio is calculated. This limitation is to prevent any single large claim overly affecting a member loss ratio. Exhibit E is an example of the Excess Loss calculation.
8. Application of this methodology to the total assessed amount of $12,534,463 provides for payment of 100% of the assessment. A detailed listing of each member's total assessment owed, with a breakdown of premium and loss portions, and identification of that member's percentage of the total assessment is provided as Exhibit F.

V. PAYMENT OPTIONS

The KSBIT P & L Fund expects substantial recoveries under excess policies. Under the terms of those policies, KSBIT P & L Fund must first pay and then recover a portion of the claims paid. Due to the funds available to pay claims, a substantial portion of the total assessment must be received as soon as possible. The plan must therefore require payment of the assessment no longer than 3 years. The following payment options are necessary for the KSBIT P & L Fund to meet its needs.

The assessment will allow for two payment plans:

1. The assessed member may elect to make payment of the full amount of its individual assessment within thirty (30) days of levying the individual assessment. A member may finance the payment of the assessment by issuing bonds, notes, or other obligations, pursuant to KRS 304.48-250; or

2. A member may elect to pay its individual assessment by making payment of forty percent (40%) of the amount assessed and due by July 1, 2014, with the balance to be paid in two (2) equal annual payments due on July 1, 2015 and July 1, 2016, respectively. These 2015 and 2016 payments shall be bearing interest at the rate of zero (0) percent. A member may elect to pay all or part of a member's unpaid balance of its individual assessment at any time, without penalty.

If any assessed member is more than three (3) days past due on any installment payment, the Rehabilitator will commence collection of such past due payment or installment pursuant to KRS 304.48-250(5) and KRS 160.160(5) by intercept of any payment due to such member from the Commonwealth of Kentucky.

V. SUMMARY

The Deputy Rehabilitator has prepared this assessment plan to be in compliance with the Statutes, Regulations, and recent Court rulings regarding the assessment of group self-insurance funds in Kentucky. It is the opinion of the Rehabilitator that this Plan of Assessment is a fair and non-discriminatory allocation of the amount needed to assure the policyholders, claimants and other creditors that the P & L Fund will be able to meet its legal liabilities as they become due and payable.

It is important to note that the success of this initial assessment plan depends upon each participating member's payment of the assessed amount.

Respectfully Submitted,

Signature on file with original document

Sharon P. Clark, Commissioner

Kentucky Department of Insurance

as Rehabilitator of the P&L Fund

11/6/2013

KSBIT P L FUND
Restatement of Filed Financial Statement
Balance Sheet
as of 06/30/13

	As Filed 6/30/2013	ADJUSTMENTS See Descriptions	RESTATED 6/30/2013	Note
Investments	3,662,111	-	3,662,111	
Cash	2,924,264	-	2,924,264	
Net Premium A/R	475,367	-	475,367	
Excess Receivable	3,163,787	-	3,163,787	
Related Party	607,681	(607,681)	-	1
Accrued investment	26,334	-	26,334	
Net Property	7,079	-	7,079	
Prepaid Expenses	2,765	-	2,765	
Total Assets	10,869,388	(607,681)	10,261,707	
Unpaid Loss & ALAE				
Reported	10,468,570	(10,468,570)	-	2
IBNR	6,371,857	(6,371,857)	-	2
TW Hindsight Net Reserve	-	16,127,676	16,127,676	2
Total Loss & ALAE	16,840,427	(712,751)	16,127,676	
A/P Related Party	28,315	-	28,315	
A/P	330,179	-	330,179	
A/P AUDit Actuaries	-	-	-	
Excess Premiums Due	-	-	-	
Advance Premium	-	-	-	
Total Liabilities	17,198,921	(712,751)	16,486,170	
Payable to Affiliate				
Surplus Notes	2,500,000	(2,500,000)	-	3
Total liabilities Surplus Notes	19,698,921	(3,212,751)	16,486,170	
Equity W/O Suplus Notes	(8,829,533)	2,605,070	(6,224,463)	4
Total Liabilities & Equity	10,869,388	(607,681)	10,261,707	

Note 1 This Adjustment eliminates the Receivable arising from a contribution made by the P & L Fund to an affiliate in 2003 and/or 2004.
This is not reflected as an obligation (legal liability) of the affiliate.

Note 2 This Adjustment reduces the Unpaid Claims Liability (Reserves) to the amount reflected in the actuarial study engaged by the KY DOI.

Note 3 This Adjustment eliminates the surplus notes issued by the P & L Fund to the KY League of Cities. The note is not considered a legal liability of the P &L Fund. These notes are also the subject of motions before the Rehabilitation Court.

Note 4 This is the equity (deficit) that is the amount of the adjusted deficit used as the basis for the assessment before closure costs as described.

EXHIBIT A

11/1/2013

KSBIT P L FUND
ASSESSMENT CALCULATION
June 30, 2013

		ASSESSMENT
Financial Statement Deficit	$ (8,829,533)	$ (8,829,533)
Adjustment for Contribution 2002-2003	(607,681)	(607,681)
Reserve Adjustment	712,751	712,751
Surplus Note Balance	2,500,000	2,500,000
Adjusted Deficit	$ (6,224,463)	$ (6,224,463)
Closure Costs		
1 Closure Costs: Claims Administration	$ 2,800,000	$ 2,800,000
2 Professional Fees	1,710,000	1,710,000
3 Other Administrative	800,000	800,000
4 Legal	1,000,000	1,000,000
Total Closure Costs	$ 6,310,000	$ 6,310,000
TOTAL ASSESSMENT		$ 12,534,463

1 Average Paid Last 4 years $700,000 Estimate = 100% 2 years plus 50% for 2 years plus 25% for 5 years	2,800,000	2,800,000
2 Average Paid last 4 years $285,000 Estimate = 100% 3 years plus 50% for 6 years	1,710,000	1,710,000
3 Average Paid last 4 years $117,000 Estimate = 100,000 for 8 years	800,000	800,000
4 An additional estimate for legal fees	1,000,000	1,000,000

EXHIBIT B

11/1/2013

KSBIT P L FUND
Restatement of Audited Financial Statements
Balance Sheets
as of 06/30/07 and 06/30/08

	Audited F.S 6/30/2007	ADJUST FOR 6/30/13 Reserve Amounts	RESTATED 6/30/2007	Audited F.S 6/30/2008	ADJUST FOR 6/30/13 Reserve Amounts	RESTATED 6/30/2008
Investments	2,998,057	-	2,998,057	3,238,959	-	3,238,959
Cash	8,225,550	-	8,225,550	6,630,855	-	6,630,855
Premium A/R	-	-	-	140,550	-	140,550
Allowance	-	-	-	-	-	-
Net Premium A/R	713,587	-	-	140,550	-	140,550
Excess Receivable	300,526	-	300,526	999,274	-	999,274
Related Party	19,059	-	19,059	12,083	-	12,083
Accrued Investment	15,559	-	15,559	165,050	-	165,050
Property	33,339	-	33,339	68,150	-	68,150
Deprec	6,926	-	6,926	15,306	-	15,306
Net Property	26,413	-	26,413	52,844	-	52,844
Prepaid Expenses	244,492	-	244,492	308,064	-	308,064
Total Assets	12,543,243	-	11,829,656	11,547,679	-	11,547,679
Unpaid Loss & ALAE			-			-
Reported	5,971,842	5,971,842	-	6,490,279	6,490,279	-
IBNR	3,789,851	3,789,851	-	3,073,293	3,073,293	-
ULAE			-			-
TW Hindsight Net Reserve		(4,116,791)	4,116,791		(12,784,827)	12,784,827
Total Loss & ALAE	9,761,693	5,644,902	4,116,791	9,563,572	(3,221,255)	12,784,827
A/P Related Party	-		-	30,756		30,756
A/P	56,536		56,536	38,901		38,901
A/P AUDit Actuaries			-			-
Excess Premiums Due			-			-
Advance Premium	1,320,272		1,320,272	1,892,727		1,892,727
Total Liabilities	11,138,501	5,644,902	5,493,599	11,525,956	(3,221,255)	14,747,211
Payable to Affiliate			-			-
Surplus Notes	-		-	-		-
Total liabilities Surplus Notes	11,138,501	5,644,902	5,493,599	11,525,956	(3,221,255)	14,747,211
Equity W/O Suplus Notes	1,404,742	(5,644,902)	**6,336,057**	21,723	3,221,255	**(3,199,532)**
Total Liabilities & Equity	12,543,243	-	11,829,656	11,547,679	-	11,547,679

EXHIBIT C

KSBIT P L FUND
COMPARATIVE INCOME STATEMENTS
(Restated)
2007 - 2013

LOSS YEAR >>>	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
Earned Premiums	8,351,841	6,988,975	7,376,085	6,974,689	8,348,241	8,908,058	9,064,107
Other Income	37,386	7,300	60,243	-	-	-	-
Investment Income	600,952	756,268	211,440	254,780	169,117	546,882	(86,019)
Total Revenue	**8,990,179**	**7,752,543**	**7,647,768**	**7,229,469**	**8,517,358**	**9,454,940**	**8,978,088**
Administrative Expenses	2,286,833	1,983,789	2,076,615	2,469,481	2,922,812	2,654,057	2,969,701
ULAE Allocation	10,240	27,734	56,570	94,008	95,942	186,737	266,244
Net Incurred Losses	5,722,185	8,710,178	7,047,854	6,386,712	6,107,900	8,793,926	7,160,593
Gain Or (Loss)	970,921	(2,969,158)	(1,533,271)	(1,720,732)	(609,296)	(2,179,780)	(1,418,450)
Ending Equity	1,706,224	(1,262,934)	(2,796,205)	(4,516,937)	(5,126,233)	(7,306,013)	(8,724,463)
Loss to be Used for Assessment	**-**	**(1,262,934)**	**(1,533,271)**	**(1,720,732)**	**(609,296)**	**(2,179,780)**	**(1,418,450)**
Assessment Percentage For Each Loss Year	0.0000%	14.4758%	17.5744%	19.7231%	6.9838%	24.9847%	16.2583%

The above Income Statmenents have been restated using the 6/30/13 Actuarial Study's net incurred losse for each of the above years.

EXHIBIT D

KSBIT P L FUND
EXAMPLE OF
ADJUSTED LOSS RATIO CALCULATION

Member Number	LOB	Claim #	Claim Date	PERIOD	Gross Paid	Recovery	Case Reserve	ACTUARY Factor	ADJUSTED Case	ADJUSTED Incurred	Adjusted Incurred For Loss Ratio
SAMPLE	EL	SAMPLE	7/19/2012	2013	1,493	-	63,507	1.143	72,559	74,052	74,052
SAMPLE	EL	SAMPLE	7/19/2012	2013	1,461	-	143,540	1.143	164,000	165,460	100,000
SAMPLE	EL	SAMPLE	12/10/2012	2013	-	-	90,000	1.143	102,829	102,829	100,000
SAMPLE	EL	SAMPLE	12/20/2012	2013	7,174	-	82,826	1.143	94,632	101,806	100,000
SAMPLE	EL	SAMPLE	7/27/2012	2013	1,072	-	148,928	1.143	170,156	171,228	100,000
SAMPLE	AL	SAMPLE	10/30/2012	2013	-	-	-	-	-	-	-
SAMPLE	AL	SAMPLE	11/2/2012	2013	351	-	-	-	-	351	351
SAMPLE	EL	SAMPLE	12/17/2012	2013	2,659	-	532,341	1.143	608,221	610,880	100,000
SAMPLE	EL	SAMPLE	12/10/2012	2013	-	-	65,000	1.143	74,265	74,265	74,265
SAMPLE	EL	SAMPLE	12/10/2012	2013	5,009	-	159,991	1.143	182,797	187,805	100,000
SAMPLE	AL	SAMPLE	12/13/2012	2013	18,011	-	4,939	2.202	10,876	28,888	28,888
SAMPLE	AL	SAMPLE	1/17/2013	2013	-	-	-	-	-	-	-
SAMPLE	AL	SAMPLE	1/17/2013	2013	-	-	6,000	2.202	13,214	13,214	13,214
SAMPLE	GL	SAMPLE	3/29/2013	2013	-	-	-	-	-	-	-
SAMPLE	EL	SAMPLE	6/21/2013	2013	-	-	-	-	-	-	-
SAMPLE				**2013**	**37,230**	**-**	**1,297,071**		**1,493,548**	**1,530,778**	**790,770**

Earned Premium for 2013 (Also same amonts used for the member under Premium portion of assessment)		**$ 186,904**
Loss Ratio		423.09%
		80.00%
Excess Loss Ratio		343.09%
Excess Loss Amount		**$ 641,247**
Total Excess Losses	**2013**	**$ 1,365,692**
SAMPLE MEMBERS SHARE OF 2013 ASSESSMNET (LOSS PORTION)		**0.4695399**

EXHIBIT E

KSBIT P L FUND
ASSESSMENT DETAIL LISTING

MemNo	District	Total Assessment	Premium Portion	Loss Portion	% of Total Assessment
	Counts>>>	114	114	79	
	TOTALS >>>>	12,534,463	7,520,678	5,013,785	100.000%
1002	ANCHORAGE IND. BOARD OF EDUCATION	43,699	14,714	28,985	0.349%
1007	BALLARD COUNTY BOARD OF EDUATION	117,192	47,993	69,199	0.935%
1008	BARBOURVILLE IND. BOARD OF EDUCATION	80,279	24,632	55,647	0.640%
1012	BEECHWOOD IND. BOARD OF EDUCATION	31,049	8,734	22,315	0.248%
1017	BOONE COUNTY BOARD OF EDUCATION	449,405	449,405	-	3.585%
1018	BOURBON COUNTY BOARD OF EDUCATION	90,138	73,928	16,210	0.719%
1020	BOYD COUNTY BOARD OF EDUCATION	14,228	14,228	-	0.114%
1021	BOYLE COUNTY BOARD OF EDUCATION	2,846	2,846	-	0.023%
1022	BRACKEN COUNTY BOARD OF EDUCATION	15,508	15,508	-	0.124%
1023	BREATHITT COUNTY BOARD OF EDUCATION	591,657	90,477	501,180	4.720%
1025	BULLITT COUNTY BOARD OF EDUCATION	192,564	177,191	15,373	1.536%
1026	BURGIN IND. BOARD OF EDUCATION	2,370	2,370	-	0.019%
1029	CALLOWAY COUNTY BOARD OF EDUCATION	109,415	109,415	-	0.873%
1031	CAMPBELLSVILLE IND. BOARD OF EDUCATION	23,504	23,504	-	0.188%
1032	CARLISLE COUNTY BOARD OF EDUCATION	71,099	29,626	41,474	0.567%
1034	Carter County School District	88,677	44,935	43,742	0.707%
1037	CAVERNA IND. BOARD OF EDUCATION	26,780	26,780	-	0.214%
1044	CLOVERPORT IND. BOARD OF EDUCATION	59,247	13,141	46,106	0.473%
1045	CORBIN IND. BOARD OF EDUCATION	26,938	26,938	-	0.215%
1049	DANVILLE IND. BOARD OF EDUCATION	26,096	7,810	18,287	0.208%
1053	EAST BERNSTADT IND. BOARD OF EDUCATIO	16,448	16,448	-	0.131%
1056	ELLIOTT COUNTY BOARD OF EDUCATION	50,065	50,065	-	0.399%
1057	EMINENCE IND. BOARD OF EDUCATION	133,292	16,767	116,525	1.063%
1059	ESTILL COUNTY BOARD OF EDUCATION	93,748	82,946	10,802	0.748%
1060	FAIRVIEW IND. BOARD OF EDUCATION	24,683	23,967	716	0.197%
1061	FAYETTE COUNTY BOARD OF EDUCATION	438,390	288,527	149,862	3.497%
1062	FLEMING COUNTY BOARD OF EDUCATION	113,076	72,081	40,995	0.902%
1063	FLOYD COUNTY BOARD OF EDUCATION	484,135	480,728	3,407	3.862%
1064	FT. THOMAS IND. BOARD OF EDUCATION	28,787	13,958	14,829	0.230%
1065	FRANKFORT IND. BOARD OF EDUCATION	58,022	33,937	24,085	0.463%
1066	FRANKLIN COUNTY BOARD OF EDUCATION	83,871	83,871	-	0.669%
1067	FULTON COUNTY BOARD OF EDUCATION	28,525	28,525	-	0.228%
1068	Fulton Independent School District	19,515	19,515	-	0.156%
1069	GALLATIN COUNTY BOARD OF EDUCATION	68,551	54,961	13,590	0.547%
1073	GRAVES COUNTY BOARD OF EDUCATION	175,935	76,699	99,236	1.404%
1075	GREEN COUNTY BOARD OF EDUCATION	68,054	18,575	49,479	0.543%
1076	Green River Regional Educational Coop.	2,586	2,586	-	0.021%
1077	GREENUP COUNTY BOARD OF EDUCATION	103,187	94,615	8,572	0.823%
1081	HARLAN IND. BOARD OF EDUCATION	31,248	25,467	5,782	0.249%
1083	Harrison County School District	47,676	47,676	-	0.380%
1085	HART COUNTY BOARD OF EDUCATION	146,664	77,029	69,635	1.170%
1088	HENRY COUNTY BOARD OF EDUCATION	52,360	23,321	29,040	0.418%
1089	HICKMAN COUNTY BOARD OF EDUCATION	81,197	39,962	41,235	0.648%
1091	JACKSON COUNTY BOARD OF EDUCATION	133,121	51,891	81,230	1.062%
1092	JACKSON IND. BOARD OF EDUCATION	94,566	13,442	81,124	0.754%
1095	JENKINS IND. BOARD OF EDUCATION	30,450	19,332	11,118	0.243%
1097	JOHNSON COUNTY BOARD OF EDUCATION	143,243	112,261	30,982	1.143%
1098	KENTON COUNTY BOARD OF EDUCATION	135,282	112,927	22,355	1.079%
1099	KENTUCKY EDUCATIONAL DEV. CORP	70,874	14,126	56,749	0.565%
1100	KENTUCKY SCHOOL BOARDS ASSOCIATION	10,738	10,125	613	0.086%
1105	KENTUCKY VALLEY EDUCATIONAL CO-OP	4,700	4,700	-	0.037%
1106	KNOTT COUNTY BOARD OF EDUCATION	50,385	14,679	35,706	0.402%

EXHIBIT F

KSBIT P L FUND
ASSESSMENT DETAIL LISTING

	Counts>>>	114	114	79	
	TOTALS >>>>	12,534,463	7,520,678	5,013,785	100.000%
MemNo	District	Total Assessment	Premium Portion	Loss Portion	% of Total Assessment
1107	KNOX COUNTY BOARD OF EDUCATION	296,688	79,880	216,808	2.367%
1109	LAUREL COUNTY BOARD OF EDUCATION	447,419	209,060	238,359	3.570%
1110	LAWRENCE COUNTY BOARD OF EDUCATION	112,505	47,146	65,359	0.898%
1111	LEE COUNTY BOARD OF EDUCATION	70,286	49,096	21,190	0.561%
1112	LESLIE COUNTY BOARD OF EDUCATION	188,788	76,084	112,704	1.506%
1114	LEWIS COUNTY BOARD OF EDUCATION	173,124	76,231	96,893	1.381%
1115	LINCOLN COUNTY BOARD OF EDUCATION	16,593	16,593	-	0.132%
1116	LIVINGSTON COUNTY BOARD OF EDUCATION	87,385	48,079	39,306	0.697%
1121	MADISON COUNTY BOARD OF EDUCATION	347,814	294,942	52,872	2.775%
1122	MAGOFFIN COUNTY BOARD OF EDUCATION	324,312	110,456	213,857	2.587%
1123	MARION COUNTY BOARD OF EDUCATION	104,079	102,426	1,652	0.830%
1125	MARTIN COUNTY BOARD OF EDUCATION	90,781	75,338	15,443	0.724%
1130	MCCREARY COUNTY BOARD OF EDUCATION	61,684	61,684	-	0.492%
1131	MCLEAN COUNTY BOARD OF EDUCATION	97,804	55,436	42,368	0.780%
1132	MEADE COUNTY BOARD OF EDUCATION	67,790	67,790	-	0.541%
1134	MERCER COUNTY BOARD OF EDUCATION	109,874	89,580	20,294	0.877%
1136	MIDDLESBORO IND. BOARD OF EDUCATION	123,591	50,241	73,349	0.986%
1138	MONTGOMERY COUNTY BOARD OF EDUCATION	201,684	109,415	92,268	1.609%
1139	MONTICELLO IND. BOARD OF EDUCATION	34,453	31,349	3,104	0.275%
1140	MORGAN COUNTY BOARD OF EDUCATION	145,138	61,689	83,449	1.158%
1145	NICHOLAS COUNTY BOARD OF EDUCATION	89,214	40,751	48,464	0.712%
1146	NORTHERN KY COOP. EDUCATIONAL SERVICES	9,146	3,134	6,012	0.073%
1147	OHIO COUNTY BOARD OF EDUCATION	113,007	113,007	-	0.902%
1148	OHIO VALLEY EDUCATIONAL COOP.	17,381	13,290	4,091	0.139%
1152	OWENSBORO IND. BOARD OF EDUCATION	5,956	5,956	-	0.048%
1153	OWSLEY COUNTY BOARD OF EDUCATION	59,919	24,502	35,417	0.478%
1155	PAINTSVILLE IND. BOARD OF EDUCATION	63,656	27,206	36,450	0.508%
1156	PARIS IND. BOARD OF EDUCATION	138,711	24,161	114,550	1.107%
1160	PIKEVILLE IND. BOARD OF EDUCATION	39,631	36,274	3,357	0.316%
1161	PINEVILLE IND. BOARD OF EDUCATION	19,401	18,331	1,070	0.155%
1162	POWELL COUNTY BOARD OF EDUCATION	155,034	75,187	79,847	1.237%
1165	RACELAND IND. BOARD OF EDUCATION	78,016	31,982	46,033	0.622%
1168	ROBERTSON COUNTY BOARD OF EDUCATION	46,486	16,230	30,256	0.371%
1170	ROWAN COUNTY BOARD OF EDUCATION	109,038	108,145	893	0.870%
1172	RUSSELL INDEPENDENT BOARD OF EDUCATIO	66,693	53,797	12,896	0.532%
1173	RUSSELLVILLE IND. BOARD OF EDUCATION	11,744	11,744	-	0.094%
1174	SCIENCE HILL IND. BOARD OF EDUCATION	11,528	11,528	-	0.092%
1175	SCOTT COUNTY BOARD OF EDUCATION	244,080	176,709	67,371	1.947%
1176	SHELBY COUNTY BOARD OF EDUCATION	121,033	104,051	16,982	0.966%
1177	SILVER GROVE IND. BOARD OF EDUCATION	6,590	6,590	-	0.053%
1182	SPENCER COUNTY BOARD OF EDUCATION	141,290	86,187	55,103	1.127%
1184	TODD COUNTY BOARD OF EDUCATION	88,639	73,144	15,495	0.707%
1185	TRIGG COUNTY BOARD OF EDUCATION	29,660	17,567	12,093	0.237%
1187	UNION COUNTY BOARD OF EDUCATION	105,565	39,342	66,223	0.842%
1190	WARREN COUNTY BOARD OF EDUCATION	53,196	53,196	-	0.424%
1191	WASHINGTON COUNTY BOARD OF EDUCATION	37,246	37,246	-	0.297%
1192	WAYNE COUNTY BOARD OF EDUCATION	53,165	19,717	33,448	0.424%
1194	WEST KENTUCKY EDUCATIONAL COOP.	33,683	5,047	28,635	0.269%
1196	WEST POINT IND. BOARD OF EDUCATION	9,527	9,527	-	0.076%
1197	WHITLEY COUNTY BOARD OF EDUCATION	171,851	171,851	-	1.371%
1199	WILLIAMSBURG IND. BOARD OF EDUCATION	27,000	27,000	-	0.215%
1200	WILLIAMSTOWN IND. BOARD OF EDUCATION	32,268	32,268	-	0.257%

EXHIBIT F

KSBIT P L FUND
ASSESSMENT DETAIL LISTING

MemNo	District	Total Assessment	Premium Portion	Loss Portion	% of Total Assessment
	Counts>>>	114	114	79	
	TOTALS >>>>	12,534,463	7,520,678	5,013,785	100.000%
1202	WOODFORD COUNTY BOARD OF EDUCATION	162,931	101,875	61,056	1.300%
1203	Thorn Hill Center Foundation, Inc.	2,346	2,346	-	0.019%
4000	Assoc of Indep KY Colleges and Universities	2,585	2,585	-	0.021%
4001	ALICE LLOYD COLLEGE	119,122	44,262	74,860	0.950%
4004	Bellarmine University	128,427	83,803	44,624	1.025%
4005	BEREA COLLEGE	123,212	123,212	-	0.983%
4010	UNIVERSITY OF THE CUMBERLANDS	159,957	156,402	3,555	1.276%
4026	UNIVERSITY OF LOUISVILLE	1,303,688	510,034	793,653	10.401%
4027	Mid-Continent University	104,585	28,694	75,891	0.834%
4028	MIDWAY COLLEGE	50,400	50,400	-	0.402%

EXHIBIT F

Memorandum of Understanding
Commonwealth of Kentucky
Between
Kentucky Department of Education
Kentucky Department of Insurance
And
The Finance and Administration Cabinet

THIS MEMORANDUM OF UNDERSTANDING (**MOU**) is made and entered into this _________ day of __________, 20__ by and between the Commonwealth of Kentucky, Kentucky Department of Education, hereinafter known as "**KDOE**," the Kentucky Department of Insurance, hereinafter known as "**KDOI**" or "**Rehabilitator,**" and the Finance and Administration Cabinet, hereinafter known as "**FAC.**"

WITNESSETH:

WHEREAS, the KSBIT self-insured combined property and liability fund has become insolvent and subject to the rehabilitation authority of the Kentucky Commissioner of Insurance; and

WHEREAS, it is the intention of the Kentucky Commissioner of Insurance to exercise her authority under KRS 304.33-010 et seq. and file a petition for the rehabilitation of the KSBIT self-insured property and liability fund and implement a plan of assessment for the recoupment of the accrued deficit of said funds; and

WHEREAS, it is the intention of the Kentucky Commissioner of Insurance to cause a guarantee of payment of the assessment for the benefit of a third party administrator of the property and liability fund and liabilities; and

WHEREAS, KDOE has the statutory authority and duty under KRS 160.160 and KRS 304.48-250 to intercept and pay funds otherwise due to an individual school district in satisfaction of any default by that school district in the payment of its liability under the assessment;

NOW THEREFORE, the parties agree as follows:

EXHIBIT
tabbies
3

In order to ensure payment of the assessment by individual school districts, the Support Education Excellence in Kentucky funds and other appropriations to a local school district will be intercepted by KDOE, with any necessary assistance from the state FAC, when a local school district does not make a timely payment of funds in accordance with its obligation to make an assessment payment, all as provided in KRS 160.160 and KRS 304.48-250. KDOE will initiate such intercept upon written certification by KDOI that any school district has not made timely payment of funds in accordance with its obligation to make an assessment payment. Upon receipt of such written certification, KDOE shall immediately withhold or intercept any payment due to such local school district from the Commonwealth of Kentucky (to the extent of the amount of the required payment) and remit such payment to the Rehabilitator. Withholding or interception shall occur from any General Fund amounts which are allotments to the local school district in the current budget biennium.

This MOU will apply to allotments to the local school district in future budget bills, since local school district expenditures which have been authorized by the General Assembly are on a continuing basis and constitute bond indebtedness.

The KDOE and the state FAC also agree that, they shall take all reasonable steps necessary and within their respective statutory authority, in order to address a default by a school district in paying its assessment when due.

Access to Records:

The contractor, as defined in KRS 45A.030(9) agrees that the contracting agency, the Finance and Administration Cabinet, the Auditor of Public Accounts, and the Legislative Research Commission, or their duly authorized representatives, shall have access to any books, documents, papers, records, or other evidence, which are directly pertinent to this contract for the purpose of financial audit or program review. Records and other prequalification information confidentially disclosed shall not be deemed as directly pertinent to the contract and shall be exempt from disclosure as provided in KRS 61.878(1)(c). The contractor also recognizes that any books, documents, papers, records, or other evidence, received during a financial audit or program review shall be subject to the Kentucky Open Records Act, KRS 61.870 to 61.884.

Choice of Law and Forum:

The laws of the Commonwealth of Kentucky shall govern all questions as to the execution, validity, interpretation, construction, and performance of this agreement or any of its terms. Any suit, action or other proceeding regarding the execution, validity; interpretation, construction, or performance of this MOU shall be filed in the Franklin Circuit Court of the Commonwealth of Kentucky.

General:

This MOU shall be binding upon and inure solely to the benefit of the parties hereto and their successors and assigns. This MOU constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and thereof.

No supplement, modification or waiver of this MOU shall be binding unless in writing and executed by each party hereto. No waiver of any of the provisions of this MOU shall be deemed or shall constitute a waiver of any other similar or dissimilar provision hereof, nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

If any term, provision, covenant or restriction of this MOU is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this MOU shall remain in full force and effect and shall in no way be affected, impaired or invalidated. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such which may be hereafter declared invalid, void or unenforceable. In such case, the parties hereto shall promptly meet and negotiate substitute provisions for those rendered or declared illegal or unenforceable so as to preserve as nearly as possible the contemplated economic effects of the transactions contemplated hereby.

The Rehabilitator may either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by the KDOE, FAC, and their officers and agents of all duties imposed or required by law or by this MOU.

Approvals:

This Memorandum of Understanding is subject to the terms and conditions as stated. By affixing signatures below, the parties agree that electronic approvals may serve as electronic signatures. This MOU may be executed in two or more counterparts, each of which shall be deemed to constitute an original, but all of which shall constitute one and the same instrument, and shall become effective when one or more counterparts have been signed by each of the parties hereto. In addition, the parties verify that they are authorized to bind this agreement between parties and that they accept the terms of the agreement.

Terry Holliday, Commissioner Kentucky Department of Education	Date
Lori Hudson Flanery, Secretary Kentucky Finance & Administration Cabinet	Date
Sharon Clark, Commissioner Kentucky Department of Insurance, in her capacity as Commissioner and Rehabilitator	Date

Approved as to form and legality:

Attorney
Kentucky Department of Education

Date

Attorney
Kentucky Finance & Administration Cabinet

Date

Attorney
Kentucky Department of Insurance
Public Protection Cabinet

Date

KENTUCKY SCHOOL BOARDS INSURANCE TRUST

KENTUCKY SURPLUS NOTE
PROPERTY/LIABILITY FUND

$2,500,000.00

Dated: Jan. 6, 2010
Frankfort, Kentucky

FOR VALUE RECEIVED, the KENTUCKY SCHOOL BOARDS INSURANCE TRUST, a trust created under an Agreement and Declaration of Trust dated July 7, 1978 among Kentucky School Boards Association, the Trust and the trustees named therein, as amended (the "Trust") promises to pay to the order of KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION, an unincorporated association created by Interlocal Agreement dated 1987, or its registered assigns (the "Holder"), the sum of Two Million Five Hundred Thousand Dollars ($2,500,000.00), plus interest as set forth below, and subject to the restrictions set forth below. Payment of the principal of and interest on this Note will be made in such currency of the United States of America which at the time of payment is legal tender for payment of public and private debts.

The unpaid principal balance of this Note, as it shall exist from time to time, shall bear interest at a rate per annum which shall be equal to the sum of the year to date yield on the S&P Index weighted at twenty percent (20%) plus the year to date yield on the Bar Cap Index weighted at eighty percent (80%). Provided, however, in no event shall the annual interest rate be less than one percent (1%) or greater than five percent (5%).

The interest rate applicable to this Note shall be adjusted annually, within 90 days of the end of the fiscal year, while this Note is outstanding and based on any change in the S&P Index and the Bar Cap U.S. Aggregate Bond Index between the immediately preceding interest adjustment date to the then current interest adjustment date.

On the date of this Note, the year to date yield on the S&P Index (calculated from January 1, 2009, to December 31, 2009) is 26.45 percent and the year to date yield on the Bar Cap U.S. Aggregate Bond Index (calculated from January 1, 2009, to December 31, 2009) is 5.93 percent, making the current interest rate 5 percent until adjusted as set forth herein.

Subject to the restrictions set forth below, interest on this Note shall be due and payable quarterly, with the first such interest payment being due and payable on the 15th day of February 2010 and the subsequent interest payments being due and payable on the 15th day of each April, July, October and January thereafter until this Note is paid in full. Interest on this Note shall be calculated on the basis of actual days elapsed over a 365 or 366 day year, as applicable.

This Note is payable solely out of the surplus of the Trust in excess of $2,000,000 (the amount of which is referred to as the "Minimum Surplus"). For purposes of this Note, the term "surplus" shall be that amount determined for statutory reporting purposes at the end of each fiscal year in accordance with accounting practices required by the Department of Insurance of the Commonwealth of Kentucky, as reported under the classification "Total Net Worth" for the Kentucky School Boards Insurance Trust Property/Liability Fund in the annual statement of the

EXHIBIT
4

Trust that is required to be filed with the Kentucky Commissioner of Insurance on or before one hundred twenty (120) days from the end of the self insured group's fiscal year.

This Note has no fixed maturity date. This Note may be paid by the Trust at such time or times as the Trustees of the Trust, with the prior approval of the Kentucky Commissioner of Insurance in accordance with Section 304.24-300 of the Kentucky Insurance Code, or any subsequently enacted statute of similar import, shall, in good faith, determine that principal of or interest on this Note can be paid to the Holder out of the Minimum Surplus of the Trust. Subject to such approvals, this Note is subject to redemption in whole or in multiples of principal of $1,000 at any time by the Trust. In making any call of less than all outstanding surplus notes of the Trust of equal rank with this Note, the Trust shall have absolute discretion in selecting the notes called for redemption or in determining the method of prorating the call. Interest shall not accrue on any principal after the redemption date set forth in the notice of redemption as set forth by the Trust.

If any principal of and interest accrued on this Note is not paid because the then Minimum Surplus of the Trust is insufficient to do so, the failure to pay the principal of and interest accrued on this Note shall not constitute a default, but interest on the principal amount shall continue to accrue and to be paid to the Holder of this Note and the principal amount shall be paid by the Trust when, in the determination of the Kentucky Commissioner of Insurance, payment may be made from Minimum Surplus of the Trust available for that purpose pursuant to Section 304.24-300 of the Kentucky Insurance Code or any subsequently enacted statute of similar import.

The principal amount of this Note shall not form a part of the Trust's statutory legal liabilities, except to the extent of its surplus in excess of the Minimum Surplus, or be the basis of any set-off.

This Note is issued pursuant to a resolution of the Trustees of the Trust adopted on November 24, 2009 and which authorizes the issuance of this Note.

This Note may be transferred by the Holder without obtaining any approval of its transfer upon surrender of this Note for transfer to the Trust at its principal place of business, duly endorsed by the Holder, or accompanied by a written instrument of transfer duly executed by the Holder. No transfer of this Note shall be valid or recognized by the Trust until such transfer is recorded on the books of the Trust and this Note is surrendered for transfer.

The Note is exchangeable for like aggregate amount of Notes of a different denomination as requested by the Holder surrendering the same upon payment of taxes and other governmental charges, provided that the Holder may not require issuance in denominations of less than $1,000 and multiples thereof.

No personal liability attaches by virtue of this Note and no recourse shall be had, either directly or indirectly, through the Trust or any liquidator, receiver, assignee, or any other person, for payment of the principal of or interest on this Note against any member, trustee, officer, director or agent of the Trust under any rule of law, statute, constitution or otherwise and any liability of members, trustees, officers, directors and agents of the Trust is expressly released by each successive Holder by acceptance of this Note.

Upon liquidation or dissolution of the Trust, Senior Obligations shall be paid before any principal of or interest on this Note may be paid. Any payments or distributions to members or beneficiaries of the Trust or successor entities shall be subordinate to the payment of any amount under this Note. The Holder of this Note shall have no rights of any kind against the Trust under this Note, except the right to receive payment of principal of and interest on this Note as herein provided and to enforce the same.

For purposes of this Note:

"S&P Index" means the Standard & Poor's 500 Index (stock-market index) as published in the "Money & Investing" section of the Midwestern edition of the Wall Street Journal (or, if the Wall Street Journal ceases publication of the S&P Index, then as published by another reputable financial news source reasonably selected by the Trust) on the date hereof and on each interest adjustment date or, if not published on such date, on the last preceding date of publication.

"Bar Cap U.S. Aggregate Bond Index" means the Barclays Capital United States Aggregate Bond Index or Barclay's Capital bond benchmark as published in the "Money & Investing" section of the Midwestern edition of the Wall Street Journal (or, if the Wall Street Journal ceases publication of the Bar Cap Index rate, then as published by another reputable financial news source reasonably selected by the Trust) on the date hereof and on each interest adjustment date or, if not published on such date, on the last preceding date of publication.

"Senior Obligations" means, at any time, any and all Senior Debt and Policy Claims then outstanding.

"Senior Debt" means (i) all existing or future Debt of the Trust, (ii) all existing or future Debt of other Persons, the payment of which is guaranteed by the Trust, (iii) all existing or future obligations of the Trust under any agreement obligating the Trust to cause another Person to maintain certain financial ratios, a minimum level of net worth or otherwise to ensure the solvency of such person, and (iv) any expense or any claim or amount, to the extent that repayment of principal of and payment of the interest on the Notes is required by applicable insurance law to be subordinated to the prior payment thereof; *provided*, that any debt subordinate to, or that ranks equally with, the Notes shall not constitute Senior Debt. "Senior Debt" does not include (x) any future surplus notes or similar obligations of the Trust, which would rank subordinate to or of equal rank with the Notes, or (y) premium refunds, if any, which are not in the ordinary course of business.

"Policy Claims" means all existing or future claims of policyholders, claimants or beneficiaries, as the case may be, under any and all existing or future policies, endorsements, riders and other contracts of insurance, annuity contracts (including guaranteed investment contracts), participation agreements, self-insurance agreements and funding agreements issued, assumed or renewed by the Trust on or prior to the date hereof or hereafter created and all other claims which, pursuant to statutory accounting principles permitted or prescribed by the Department of Insurance of the Commonwealth of Kentucky, including Section 304.24-300 of the Kentucky Insurance Code, as amended, have priority over claims with respect to the Notes.

"Debt" means, with respect to any Person, whether recourse is to all or a portion of the assets of such Person, whether currently existing or hereafter incurred and whether or not contingent and without duplication, (i) every obligation of such Person for money borrowed; (ii) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses; (iii) every reimbursement obligation of such Person with respect o letters of credit, bankers' acceptances or similar facilities issued for the account of such Person; (iv) every obligation of such Person issued or assumed as the deferred purchase price of property or services (but excluding trade accounts payable or other accrued liabilities arising in the ordinary course of business); (v) every capital lease obligation of such Person; (vi) all indebtedness of such Person, whether incurred on or prior to the date of this Note or thereafter incurred, for claims in respect of derivative products, including interest rate, foreign exchange rate and commodity forward contracts, options and swaps and similar arrangements; (vii) every obligation of the type referred to in clauses (i) through (iv) or another Person and all dividends of another Person the payment of which, in either case, such Person has guaranteed or is responsible or liable for, directly or indirectly, as obligor or otherwise; and (viii) any renewals, extensions, refundings, amendments or modifications of any obligation of the type referred to in clauses (i) through (vii).

"Person" means legal person, including individual, corporation, estate, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated association, government or any agency or political subdivision thereof, or any other entity of whatever nature.

IN WITNESS WHEREOF, the Trust has duly executed this Note on Jan. 6, 2010.

KENTUCKY SCHOOL BOARDS INSURANCE TRUST

Signature on file with original document

By: _____

Name: Delmar O Mahan

Title: Chairman

Attest:

Signature on file with original document

Name: Kobyn Miller

Title: Corporate Attorney

DE84:41325:335269:3: LEXINGTON4

MASTER AGREEMENT

THIS MASTER AGREEMENT is made and entered into effective as of December 8th, 2009 by and between (i) the KENTUCKY SCHOOL BOARDS INSURANCE TRUST ("KSBIT"), a trust created under an Agreement and Declaration of Trust dated July 7, 1978 between the Kentucky School Boards Association ("KSBA") and certain trustees named therein, as amended (the Agreement and Declaration of Trust, as amended, is referred to as the "Declaration of Trust"), and (ii) the KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION, ("KLCIS"), an unincorporated association created by Interlocal Agreement dated 1987, and KENTUCKY LEAGUE OF CITIES, INC., a Kentucky non-stock, non-profit corporation, acting as Administrator for KLCIS in its corporate capacity, both entities collectively referred to as ("KLC").

RECITALS:

A. KSBIT's purposes are to provide participating members of KSBA with (i) risk management services, and (ii) group self-insurance through various funds, consisting at present of a property and liability fund (the "P/L Fund"), a workers compensation fund (the "Workers Comp Fund") and an unemployment insurance fund (the "UI Fund") (the P/L Fund and Workers Comp Fund [but not the UI Fund] are sometimes together referred to as the "Funds").

B. KSBIT and KLC have agreed on a plan under which KLC will help KSBIT meet statutory surplus requirements for the P/L Fund and Workers Comp Fund and KLC will administer the Funds. The terms and conditions of the Plan are set forth in this Agreement.

AGREEMENTS:

In consideration of the recitals, the agreements contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, KSBIT and KLC, intending to be legally bound, agree as follows:

ARTICLE 1

SURPLUS NOTES

Section 1.1 Surplus Notes. At the Closing (as defined in Article 6), KLC will purchase from KSBIT two Surplus Notes (the "Surplus Notes") substantially in the form of Exhibit A & B attached hereto, with all blanks properly completed and duly executed by KSBIT. The Surplus Notes will be in the amount of $2,500,000 for the P/L Fund and $5,500,000 for the Workers Comp Fund.

Section 1.2 Use of Proceeds. The proceeds from the sale of the Surplus Notes shall only be used and applied by KSBIT for the purpose of funding the existing deficit in the Funds.

EXHIBIT
tabbles
5

ARTICLE 2

ADMINISTRATION

Section 2.1 Administration Agreement. At the Closing, KSBIT and KLC will execute and deliver an Administration Agreement (the "Administration Agreement") substantially in the form of Exhibit B attached hereto.

Section 2.2 Endorsement Agreement. At the Closing, KSBIT will deliver to KLC an Exclusive Endorsement and Services Agreement (the "Endorsement Agreement") substantially in the form of Exhibit C attached hereto and duly executed by KSBA and KSBIT. Under the Endorsement Agreement, KSBA will agree to endorse exclusively the P&L Fund and Workers Comp Fund for KSBA members' property and liability and workers comp insurance and to provide certain services to the Funds. The Endorsement Agreement will provide for an annual endorsement and services fee payable to KSBA. The fee will equal one and one-quarter percent (1.25%) of annual gross billed premiums of the Funds, but not to exceed $500,000 in any fiscal year. The term of the Endorsement Agreement will equal the term of the Administration Agreement.

Section 2.3 Amendments to Declaration of Trust. At the Closing, KSBIT will deliver to KLC certified copies of an Amendment to the Declaration of Trust (the "Trust Amendment") substantially in the form of Exhibit D attached hereto and duly executed by KSBA and KSBIT. Among other things, the Trust Amendment will:

(a) increase the number of KSBIT's Trustees to nineteen (19);

(b) provide that during the term of the Administration Agreement, KLC shall be entitled to appoint nine (9) of KSBIT's Trustees (the "KLC Trustees");

(c) allow city officials to serve as KLC Trustees; and

(d) provide that during the term of the Administration Agreement, all formal written recommendations submitted to the Trustees at a "Qualified Meeting" (as defined below) by KLC, acting in its capacity as Administrator for KSBIT, will be deemed accepted by the KSBIT Trustees unless at least ten (10) Trustees, at least five (5) of whom must be KLC Trustees, vote against a recommendation (any vote requiring at least ten (10) Trustees, at least five (5) of whom must be KLC Trustees, is referred to as a "Special Majority Vote"), and the following actions will require a Special Majority Vote (except as provided otherwise below):

(i) Any amendment, modification, waiver or termination of this Agreement, Administration Agreement, Surplus Notes, Subscription Agreement or Endorsement Agreement.

(ii) Any amendment, modification, repeal or replacement of any provision of the Declaration of Trust or KSBIT's Bylaws that directly affects this Agreement or the agreements or transactions described therein.

(iii) Any dissolution, liquidation, termination, receivership, reorganization, recapitalization, merger, consolidation or sale of all or substantially all assets of KSBIT or any of the Funds, unless required by the Kentucky Department of Insurance ("KDI") or a court or other regulatory agency having competent jurisdiction and authority.

(iv) Any changes, modifications, amendments or revisions in the insurance coverages available from the Funds or the Funds' Participation Agreements or Self-Insurance Agreements.

(v) Any decisions relating to the Funds' rates, charges, reserves or actuarial procedures or assumptions not recommended or approved by KLC.

Provided, however, that a Special Majority Vote shall not be required for: (A) nonrenewal of the term of the Administration Agreement or Endorsement Agreement at any regularly scheduled expiration date (provided that proper notice of nonrenewal is given); (B) any legally permitted prepayment, in whole or in part, of the Surplus Notes, (C) termination of the Master Agreement, Administration Agreement or Endorsement Agreement by KSBIT for any reason for which KSBIT is allowed to terminate those Agreements under their terms, (D) any assessment, (E) election of officers, (F) each party's appointment or removal of its Trustees pursuant to the terms of this Agreement, (G) any action that, based on the opinion of outside legal counsel, is required to be taken by the Trustees to meet legal or fiduciary duties, (H) any action not related to the Funds, or (I) retention of auditors or separate, non-claims counsel for KSBIT or the Trustees appointed by KSBA.

(e) For purposes of this Agreement, a "Qualified Meeting" means a meeting of the Trustees, duly held pursuant to proper call and notice, at which a quorum is present and at least five (5) KLCIS Trustees are present.

Section 2.4 Amendments to Bylaws. At the Closing, KSBIT shall deliver to KLC certified copies of an Amendment to KSBIT's Bylaws (the "Bylaws Amendment") substantially in the form of Exhibit E attached hereto. The Bylaws Amendment shall conform to the Trust Amendment.

Section 2.5 UI Fund. The UI Fund is not included in the transactions described in this Agreement, and KSBIT will continue to operate, manage and administer the UI Fund separately, either on its own or through contractors.

ARTICLE 3

CERTAIN OTHER AGREEMENTS

Section 3.1 Cooperation. Each of KSBIT and KLC shall use reasonable efforts in good faith to perform and fulfill all conditions and obligations to be fulfilled or performed by it under this Agreement and to procure upon reasonable terms and conditions all approvals, consents and registrations necessary for the transactions described in this Agreement.

Section 3.2 Access to Information. KSBIT will give KLC and its employees, accountants, attorneys and other authorized representatives reasonable access during normal business hours to the Funds' books and records, and furnish KLC with such financial, operating, claims, reserves and other information of the Funds as KLC shall from time to time reasonably request. Any information reviews or site visits by KLC shall be conducted in a manner which does not unreasonably interfere with KSBIT's operations.

ARTICLE 4

CONDITIONS TO KLC'S OBLIGATIONS

KLC's obligations to consummate the transactions described in this Agreement are subject to the satisfaction, on or before the Closing Date, of the following conditions, each of which may be waived by KLC in its sole discretion:

Section 4.1 Consents. All KDI and other requisite governmental, regulatory and third party licenses, permits, consents and approvals required to be received in connection with the transactions described in this Agreement, or as necessary or appropriate for KLC to administer the Funds after the Closing, shall have been obtained, except as otherwise agreed by KLC.

Section 4.2 Closing Documents. KSBIT shall have delivered to KLC all of the agreements and other documents required by this Agreement to be delivered by KSBIT.

Section 4.3 No Actions, Suits or Proceedings. As of the Closing Date, no action, suit, investigation or proceeding brought by any person, corporation, governmental agency or other entity shall be pending or threatened before any court or governmental body (i) to restrain, prohibit, restrict or delay, or to obtain damages or a discovery order in respect of, this Agreement or the consummation of the transactions described herein, or (ii) which has or may have a materially adverse effect on the condition, financial or otherwise, businesses or prospects of KSBIT. No order, decree or judgment of any court or governmental body shall have been issued restraining, prohibiting, restricting or delaying the consummation of the transactions described in this Agreement. No insolvency proceeding of any character, including without limitation KDI receivership, rehabilitation or liquidation, or other bankruptcy, receivership, reorganization, dissolution, liquidation or termination, voluntary or involuntary, affecting KLC, KSBIT or the Funds shall be pending or threatened.

Section 4.4 Review Satisfactory. KLC shall be satisfied in all respects with the results of its review of the Funds.

Section 4.5 No Adverse Changes. There shall not have occurred any material adverse change (or fact, circumstance or condition that could result in a material adverse change) in KSBIT, the Funds or their financial conditions, businesses, assets, prospects or operations.

Section 4.6 Board Approval. This Agreement, the Surplus Notes, Administration Agreement and Endorsement Agreement, and the transactions described herein and therein, shall have been duly authorized and approved by the Kentucky League of Cities' Executive Board or KLCIS' Board of Trustees, as applicable.

Section 4.7 Required Surplus. The total amount of surplus required by the Funds to meet statutory or KDI standards shall not exceed $8,000,000.

ARTICLE 5

CONDITIONS TO KSBIT'S OBLIGATIONS

KSBIT's obligations to consummate the transactions described in this Agreement are subject to the satisfaction, on or before the Closing Date, of the following conditions, each of which may be waived by KSBIT in its sole discretion:

Section 5.1 Consents. All KDI and other requisite governmental, regulatory and third party licenses, permits, consents and approvals required to be received in connection with the transactions described in this Agreement, or as necessary or appropriate for KLC to administer the Funds after the Closing, shall have been obtained, except as otherwise agreed by KSBIT.

Section 5.2 Closing Documents. KLC shall have delivered to KSBIT all of the agreements and other documents required by this Agreement to be delivered by KLC.

Section 5.3 No Actions, Suits or Proceedings. As of the Closing Date, no action, suit, investigation or proceeding brought by any person, corporation, governmental agency or other entity shall be pending or threatened before any court or governmental body (i) to restrain, prohibit, restrict or delay, or to obtain damages or a discovery order in respect of this Agreement or the consummation of the transactions described herein, or (ii) which has or may have a materially adverse effect on the condition, financial or otherwise, businesses or prospects of KSBIT or KLC. No order, decree or judgment of any court or governmental body shall have been issued restraining, prohibiting, restricting or delaying the consummation of the transactions described in this Agreement. No insolvency proceeding of any character, including without limitation KDI receivership, rehabilitation or liquidation, or other bankruptcy, receivership, reorganization, dissolution, liquidation or termination, voluntary or involuntary, affecting KLC, KSBIT or the Funds shall be pending or threatened.

Section 5.4 No Adverse Changes. There shall not have occurred any material adverse change (or fact, circumstance or condition that could result in a material adverse change) in KLC, KSBIT, the Funds or their respective financial conditions, businesses, assets, prospects or operations.

Section 5.5 Board Approvals. This Agreement, the Surplus Notes, Administration Agreement, Endorsement Agreement, Trust Amendment and Bylaws Amendment, and the transactions described herein and therein, shall have been duly authorized and approved by KSBA's Board of Directors or KSBIT's Trustees, as applicable.

Section 5.6 Required Surplus. The total amount of surplus required by the Funds to meet statutory or KDI standards shall not exceed $8,000,000.

ARTICLE 6

CLOSING

Subject to satisfaction or waiver of the conditions precedent set forth in this Agreement or termination of this Agreement under Article 7, the closing of the transactions described in this Agreement (the "Closing") shall be held as soon as practicable and in any case on or before December 31, 2009 (the "Closing Date"), and shall be effective as of 11:59 p.m. eastern time on the Closing Date. KLC and KSBIT currently expect the Closing to take place on December 8, 2009. The Closing shall be held at the offices of Stites & Harbison, PLLC, 250 West Main Street, Suite 2300, Lexington, Kentucky 40507, at 1:30 p.m. on the Closing Date, or at such other time and place as the parties may mutually agree. Time is of the essence for the Closing.

ARTICLE 7

TERM AND TERMINATION

The term of this Agreement shall commence on the date hereof and continue until the occurrence of any of the following events:

Section 7.1 Termination Prior to Closing. This Agreement may be terminated prior to Closing as follows:

(a) Date Certain. By KSBIT or KLC, if for any reason the Closing has not been consummated by the close of business on December 31, 2009.

(b) Mutual Consent. By the mutual written consent of KSBIT and KLC.

(c) Breaches or Failures of Conditions Precedent.

(i) By KLC, in addition to any other remedies it may have, upon prior written notice, if KSBIT materially breaches this Agreement or upon the failure and nonwaiver of any condition precedent set out in Article 4, unless within ten (10) business days after written notice from KLC (but in no event after December 31, 2009), KSBIT shall have cured such breach or failure to the reasonable satisfaction of KLC.

(ii) By KSBIT, in addition to any other remedies it may have, upon prior written notice, if KLC materially breaches this Agreement or upon the failure and nonwaiver of any condition precedent set out in Article 5, unless within ten (10) days after the written notice from KSBIT (but in no event after December 31, 2009), KLC shall have cured such breach or failure to the reasonable satisfaction of KSBIT.

Section 7.2 Termination After Closing. This Agreement may be terminated after Closing as follows:

(a) The term of this Agreement shall automatically terminate upon expiration or termination of the term of the Administration Agreement for any reason, without any further or separate notice or action.

(b) The termination, liquidation or dissolution of either of the Funds, KSBA, KSBIT or KLC.

(c) Upon any final, non-appealable order of the Kentucky Department of Insurance or court, if so ordered.

ARTICLE 8

MISCELLANEOUS

Section 8.1 Entire Agreement. This Agreement and the other agreements and documents described herein contain the entire agreement and understanding between KSBIT and KLC with respect to the subject matter of this Agreement and supersede all prior oral or written agreements, understandings or negotiations relating to the subject matter of this Agreement.

Section 8.2 Modifications and Amendments. The terms and provisions of this Agreement may be modified or amended only by written agreement executed by the party or parties to be charged.

Section 8.3 Assignment; Binding Effect. Neither this Agreement, nor any right hereunder, may be assigned by KLC or KSBIT without the prior written consent of the other. This Agreement shall be binding upon, and inure to the benefit of, KSBIT, KLC and their respective successors and permitted assigns.

Section 8.4 Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be governed by the internal laws of the Commonwealth of Kentucky, regardless of the principles of conflicts of laws applied by Kentucky or any other jurisdiction.

Section 8.5 Expenses. Except as otherwise provided in this Agreement, each party shall pay its own fees and expenses (including the fees of any attorneys, accountants, actuaries or others engaged by such party) incurred in connection with this Agreement and the transactions contemplated by this Agreement, whether or not the transactions contemplated by this Agreement are consummated.

Section 8.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, shall be deemed to constitute one and the same Agreement.

Section 8.7 Notices. Any notices or other communications required or permitted under this Agreement shall be sufficiently given if delivered in person or sent by e-mail, facsimile or certified mail, postage prepaid, return receipt requested, addressed to the recipient at the address set forth beneath its signature to this Agreement, or to such other address as a party may designate in writing in accordance herewith. If sent by e-mail, the notice must state in the caption that it is a notice under this Agreement.

Section 8.8 Construction. As used herein, unless the context otherwise requires: (a) references to "Articles" and "Sections" are to articles and sections of this Agreement; (b) all references to "Exhibits" herein are to the Exhibits attached hereto, all of which are an integral part hereof, are incorporated herein by reference and are made a part hereof; (c) "include," "includes" and "including" are deemed to be followed by "without limitation" whether or not they are in fact followed by such words or words of like import; (d) "herein," "hereof," "hereto," and the like refer to this Agreement as a whole and not to any particular Article, Section or provision of this Agreement; and (e) the headings of the various sections and other subdivisions hereof are for convenience of reference only and shall not modify, define or limit any of the terms or provisions hereof.

Section 8.9 Interpretations. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against any party, whether under any rule of construction or otherwise. No party to this Agreement shall be considered the draftsman. The parties acknowledge and agree that this Agreement has been reviewed, negotiated, and accepted by both parties and their attorneys and shall be construed and interpreted according to the ordinary meaning of the words used so as fairly to accomplish the purposes and intentions of all parties hereto.

Section 8.10 Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

Section 8.11 Jurisdiction; Service of Process. Any suit, action or other proceeding seeking to enforce any provision of, or based upon any right arising out of, in connection with, or in any way relating to, this Agreement shall be brought in the Circuit Court sitting in Franklin County, Kentucky, or the United States District Court for the Eastern District of Kentucky. Each party hereby irrevocably consents and submits to the jurisdiction and venue of these courts and irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any suit, action or proceeding brought in these courts and any claim that the suit, action or proceeding has been brought in an inconvenient forum.

[Remainder of page intentionally left blank. Signatures appear on the following page.]

SIGNATURES:

KSBIT, KLCIS and KLC have executed and delivered this Agreement effective as of the date set forth in the caption.

KENTUCKY SCHOOL BOARDS INSURANCE TRUST

By: Delmar L Mahan

Title: President-KSBA

Address: Attn: Bill Scott
260 Democrat Drive
Frankfort, KY 40601-8212

Fax: 502-695-5451

E-Mail: Bill.Scott@KSBA.org

KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION

Signature on file with original document

By:

Title: Ex Pool Administrator
Chief Insurance Officer

Address: Attn: General Counsel
100 East Vine Street
Suite 800
Lexington, Kentucky 40507

Fax: 859-977-3703

E-Mail: tjuett@klc.org

DE84:41325:333914:6:LEXINGTON

KENTUCKY LEAGUE OF CITIES, INC.

By: Signature on file with original document

Title: Deputy Executive Director

Address: Attn: General Counsel
100 East Vine Street
Suite 800
Lexington, Kentucky 40507

Fax: 859-977-3703

E-Mail: tjuett@klc.org

COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIRT COURT
DIVISION _________
CIVIL ACTION NO. _______________

SHARON P. CLARK, in her capacity as COMMISSIONER KENTUCKY DEPARTMENT OF INSURANCE — **PETITIONER**

vs.

ORDER OF REHABILITATION

KENTUCKY SCHOOL BOARD INSURANCE TRUST PROPERTY AND LIABILITY FUND — **RESPONDENTS**

AND

KENTUCKY LEAGUE OF CITIES

* * * * * * *

Petitioner Sharon P. Clark, Commissioner of Insurance for the Commonwealth of Kentucky (the "Commissioner") filed a Verified Petition for Rehabilitation (the "Petition") against Kentucky School Boards Insurance Trust Property and Liability Fund (the "KSBIT Liability Fund"). The Court has considered the Petition is duly advised, and finds that the relief sought in the Petition should be immediately granted.

IT IS THEREFORE ORDERED, ADJUDGED and DECREED that:

1. The Commissioner, including her successors in office, is hereby appointed as the Rehabilitator of the KSBIT Liability Fund and is bestowed with all authority and powers of a Rehabilitator as provided by KRS 304.33, including, but not limited to:

EXHIBIT
tabbles
6

(a) all the powers of the directors, officers, and managers of the KSBIT Liability Fund, whose authority shall be suspended, except as they are re-delegated by the Rehabilitator;

(b) the power and authority to direct, manage, hire and discharge employees subject to any contract rights they may have;

(c) the power and authority to deal with the property and business of the ;

(d) the exclusive authority to prosecute any action that exists on behalf of members or policyholders of the Fund against any director or officers of the Fund or any other person or entity.

(e) the power and authority to employ and fix the compensation, with court approval, of any special deputy rehabilitators, counsel, clerks, and assistants, all of whom shall serve at the pleasure of the Rehabilitator; to pay all expenses of taking possession of the KSBIT Liability Fund and other costs and expenses of the administration of this proceeding; and, to pay such compensation and other costs and expenses of administration out of the funds or assets of the KSBIT Liability Fund.

2. The Rehabilitator is directed to take possession of all assets of KSBIT Liability Fund as soon as possible and to administer them under the general supervision of this Court.

3. The Rehabilitator is directed to take such action respecting pending litigation against the KSBIT Liability Fund as she considers necessary in the interests of justice and for the protection of policyholders and the public, and to consider all litigation pending outside Kentucky and to petition the courts having jurisdiction over that litigation for stays whenever necessary to protect the KSBIT Liability Fund.

4. Pursuant to KRS 304.33-160, Joseph N. Pope, Jr. hereby appointed as the Special Deputy Rehabilitator. The Rehabilitator is authorized to employ Joseph N. Pope as a Special Deputy Rehabilitator and to compensate Mr. Pope at a rate of $175.

5. Any court or tribunal in Kentucky before which any action or proceeding in which the Fund is a party or is obligated to defend a party is pending shall stay that action or proceeding for such time as is necessary for the Rehabilitator to obtain proper representation and prepare for further proceedings.

6. The KSBIT Liability Fund's fiscal administration and day-to-day operation shall continue to be maintained and administered by Kentucky League of Cities and third-party administrator Collins & Co. according to the terms of the agreements between them, until such time as the Rehabilitator or this Court directs otherwise, and any action by the parties to the contrary is stayed by entry of this order.

7. The Rehabilitator is directed to provide accountings to this Court at intervals of every ____ months.

8. The Court retains jurisdiction to issue such further orders as it may deem appropriate.

Dated: ____________________________

____
Judge, Franklin Circuit Court

COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIRT COURT
DIVISION ________
CIVIL ACTION NO. ______________

SHARON P. CLARK, in her capacity as COMMISSIONER KENTUCKY DEPARTMENT OF INSURANCE — **PETITIONER**

vs. **ORDER APPROVING ASSESSMENT PLAN**

KENTUCKY SCHOOL BOARD INSURANCE TRUST PROPERTY AND LIABILITY FUND — **RESPONDENTS**

AND

KENTUCKY LEAGUE OF CITIES

* * * * * * *

Petitioner Sharon P. Clark, Commissioner of Insurance for the Commonwealth of Kentucky (the "Commissioner"), filed a Verified Petition for Rehabilitation (the "Petition") as against Kentucky School Boards Insurance Trust Property and Liability Self-Insurance Fund (the "KSBIT Liability Fund"). The Court considered the Petition and entered an order appointing the Commissioner and her successors in office as the Rehabilitator of the KSBIT Liability Fund.

KRS 304.33-160(5) authorizes the Rehabilitator to enter into plans for the reorganization, conversion, consolidation, reinsurance, merger, or other transformation of the Fund. Pursuant thereto, the Rehabilitator in the Petition moved this Court to approve an Assessment Plan. The Court has considered the Petition, has considered the proposed Assessment Plan, and has considered any and all opposition thereto.

IT IS ORDERED, ADJUDGED AND DECREED that:

EXHIBIT
tabbles
7

1. The Rehabilitator's Assessment Plan is in the best interests of the KSBIT Fund's policyholders, injured worker claimants, and the public.

2. The Assessment Plan, as described in the Petition and as attached to the Petition as Exhibit 2, was properly prepared in accordance with KRS 304.33-160(5), which authorizes plans for reorganization, conversion, consolidation, reinsurance, merger, or other transformation of an insurer.

3. Pursuant to the Fund's Self-Insurance Agreements with its members, and pursuant to KRS 304.48-250, the Rehabilitator is to assess the Fund's members an aggregate amount necessary to satisfy the liabilities and obligations of the KSBIT Liability Fund as the Rehabilitator deems appropriate.

4. The Rehabilitator's Assessment Plan, as described in the Petition and as attached to the Petition as Exhibit 2, is fair and equitable and does not discriminate between the Fund's members. Accordingly, the Court approves the Assessment Plan.

5. The Rehabilitator is to levy the assessment against the members of the KSBIT Liability Fund as contemplated by the Assessment Plan and, to pursue diligently the collection of all assessment payments hereby authorized and directed by the Assessment Plan. If the actual collections of the assessment contemplated by the Assessment Plan are insufficient to satisfy all liabilities of the KSBIT Liability Fund, including administrative expenses to administer the Fund, the Rehabilitator shall, subject to the oversight of this Court, levy additional assessments on the members of the KSBIT Liability Fund in order to satisfy the liabilities of the Fund.

6. If any assessed member of the KSBIT Liability Fund is more than three (3) days past due on any payment of the assessment, the Rehabilitator is to commence collection of such

past due installment payment pursuant to KRS 304.50-250 and KRS 160.160(5) by the intercept of any payment due to such member from the Commonwealth of Kentucky (the "Intercept").

7. The Intercept is a lawful and proper mechanism to ensure payment of the KSBIT Liability Fund's members' assessment liabilities and to ensure payment of the assessment to the Rehabilitator. In furtherance thereof, all instrumentalities of the Commonwealth involved in the allocation or delivery of payments due to a member of the KSBIT Liability Fund, including the Kentucky Department of Education and the Kentucky Finance and Administration Cabinet, are directed to effectuate the Intercept and remit the same to the Rehabilitator.

8. The Court retains jurisdiction to issue such further orders as it may deem appropriate.

Dated: ______________________

____
Judge, Franklin Circuit Court