

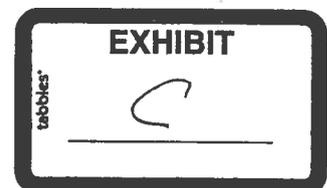
**PLAN OF INITIAL ASSESSMENT
FOR THE
KENTUCKY SCHOOL BOARD
INSURANCE TRUST WORKERS'
COMPENSATION SELF-INSURANCE
FUND**

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 Workers’ Compensation Self-Insurance Fund, which is a workers’ compensation self-insured group authorized by KRS 342.350 and KRS 304.50-010 and defined in KRS 304.50-015.

Kentucky School Board Association (“KSBA”) is the sponsoring organization of the WC Fund. KSBA is 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 WC Fund. The WC Fund members pool their workers’ compensation insurance risks on a group self-insured basis under the provisions of KRS 304.50. To participate in the WC Fund, the member must be a member of KSBA and must agree to bind themselves, jointly and severally, to pay the pooled liabilities of the WC Fund.

The Board of Trustees for the WC Fund canceled all insurance policies effective June 30, 2013, placing the WC Fund in “runoff,” meaning no new policies are being issued and the sole operating purpose of the WC Fund is to process and pay all insurance claims and legal liabilities and obligations arising from operations and policies issued by the WC Fund before June 30, 2013.

The financial condition of the WC Fund is such that it does not have adequate assets to discharge its legal liabilities. The WC Fund has been placed into Rehabilitation pursuant to KRS

304.33. Under the provisions of KRS 304.50-055 and KRS 304.33-160, this plan of assessment has been prepared to obtain assets sufficient for the WC Fund to meet all of 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 \$37,089.129, see Exhibit A.
2. The above deficit has been adjusted as follows (see Exhibit B adjustments):
 - a. The WC Fund financial statement reflects as a liability a refund or repayment arising from a transaction with an affiliate in 2003-04 in the amount of \$607,681.
 - i. The WC Fund has provided no adequate documentation for the basis of this liability.
 - ii. There are third party reports that indicate that this amount had been repaid to this affiliate.
 - iii. There appears to be a receipt reported by that affiliate in 2009 of a similar amount (\$600,000).
 - iv. Therefore, this liability should not be considered a legal liability of the WC Fund. This decreases the deficit to \$36,481,448.
 - 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 WC Fund as of June 30, 2013. This actuarial report indicates that the undiscounted unpaid claims liabilities are

\$43,647,821. This amount is \$1,375,179 more than the liability reflected in the financial statements, increasing the deficit by that amount.

c. Accounting principles require the discounting of claim liabilities. The actuarial study also indicated that the discounted claim liability using 3% discount rate would reduce the liability by \$8,544,262. This would decrease the deficit by that amount. In total the adjustment for the unpaid claim liability reduces the unpaid claim liability by \$7,169,083. This decreases the deficit to \$28,312,365.

d. The WC Fund issued a "Surplus Note" in 2010 with an outstanding balance of \$5,500,000 as of June 30, 2013. The terms of the note indicate that this is not to be considered a legal liability of the WC Fund. As a result this note has been eliminated as a liability and the deficit has been reduced by that amount to \$23,812,365. This is the adjusted Financial Statement Deficit before any other items to determine the Assessment Amount.

e. The Deputy Rehabilitator has estimated that the WC Fund will require administrative closure costs in the amount of \$3,548,344. These costs are to include the continuation of claims administration, professional, and other costs required to process and pay all claims arising from the policies of insurance issued by the WC Fund until such time as the claim liabilities can be transferred to an insurer.

f. The Rehabilitator has received a proposal from KEMI (see related filing in this matter) to assume all claim liabilities of the KSBIT WC Fund. Under the terms, KEMI will receive a fixed amount, \$35,000,000 at the

closing date. In order to assure adequate funds are available or due under this assessment plan an adjustment of \$6,018,412 is needed. This amount is the estimate of claims transactions (reserve adjustment by KEMI's actuaries and claim payments) between 7/1/13 and the closing date.

g. The assessment is subject to the KY Special Fund Assessment (KYSFA). This assessment has been calculated using the KYSFA rate applicable to each year being assessed. The amount of the KYSFA is \$2,620,544.

h. The total amount of the assessment necessary is \$35,999,666.

Exhibit B reflects the detail of this calculation.

III. ALLOCATION TO YEARS

1. Any 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 from which the fund never emerged. Furthermore, 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 WC Fund's current deficit began during the year of July 1, 1997 through June 30, 1998. Exhibit C reflects the estimate of the WC 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 WC Fund had a surplus as of July 1, 1997; however, the results of operations in that next year (period ending June 30, 1998) resulted in a deficit. The WC Fund never emerged from this deficit position in any subsequent year.

3. Pursuant to KRS 304.50-090(8), a member that is terminated from a self-insurance fund remains financially obligated to the fund for periods during which it 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. Exhibit D uses the current actuarial study to recreate comparative income statements for each year ending June 30, 1998 through June 30, 2013. As reflected, each year's loss (if there was a loss) is pro-rated with the total loss for all years. This calculation results in the pro-rata share of any assessment applicable to each year. The percentages for each year being assessed are 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 WC Fund. It also excludes members from being assessed for two years, since on a comparative basis those years did not have losses.

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 100%, the portion greater than 100% 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. To have all members' loss ratios 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. EXHIBIT F reflects each members total assessment, the portion from premiums and losses, as well as a percentage of the total assessment. The amounts include the KYSFA.

V. PAYMENT OPTIONS

The WC Fund expects substantial recoveries under excess policies. Under the terms of those policies, the WC Fund must first pay the claims, and then recover a portion of the claims paid. Because of the funds available to pay claims, a substantial portion of the total assessment

must be received as soon as possible. The following payment options are necessary for the WC Fund to meet its needs:

1. A member may elect to pay its individual assessment in full on the date that is the later of (i) thirty (30) days after entry of the Franklin Circuit Court's Order approving the assessments and (ii) July 31, 2014 (the "Due Date"). Pursuant to KRS 304.50-055(9), a member may finance the payment of the assessment by issuing bonds, notes, or other obligations. Or,

2. A member may elect to pay its individual assessment by payment of (i) twenty-five (25%) of the amount of the member's individual assessment by the Due Date and (ii) the balance in equal annual installments due on July 31 of each year over a period of two to six years, as the member may elect, and a member's unpaid balance of its individual assessment may be prepaid at any time in full, 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 installment payment pursuant to KRS 304.50-055 and KRS 160.160(5) by the intercept of any payment due to such member from the Commonwealth of Kentucky.

VI. SUMMARY

The Deputy Rehabilitator has prepared this assessment plan to comply with the statutes and regulations regarding the assessment of group self-insurance funds in Kentucky. The Rehabilitator and the Deputy Rehabilitator believe that this Plan of Assessment is a fair and non-discriminatory allocation of the amount needed to ensure the WC Fund's ability 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,

A handwritten signature in black ink that reads "Sharon P. Clark". The signature is written in a cursive style with a large, prominent "S" and "C".

Sharon P. Clark, Commissioner

Kentucky Department of Insurance

as Rehabilitator of the WC Fund

**FOR EXHIBIT A PLEASE REFER TO EXHIBIT A OF THE VERIFIED PETITION
FOR REHABILITATION**

KSBIT WC FUND ASSESSMENT CALCULATION

June 30, 2013

	ASSESSMENT	NOTE
Audited Financial Statement Deficit	\$ (37,089,129)	
Adjust to TW Reserves (undiscounted)	(1,375,179)	A
Discount Reserve 3%	8,544,262	A
Contribution from KSBIT P & L Fund	607,681	B
Eliminate Surplus Note	5,500,000	C
Adjusted Deficit	<u>\$ (23,812,365)</u>	
Adjustments to Assessment:		
Closure Costs thru 7/1/14		
Claims Admin	716,127	E
Professional	574,160	E
Other (20% est. of above)	258,057	E
Closure Costs After 7/1/14	2,000,000	
Total Closure Costs	<u>3,548,344</u>	
Reserve Adjustment to future closing date	<u>6,018,412</u>	D
Assessment Before KYSFA	<u>\$ 33,379,121</u>	
SFA	2,620,544	F
TOTAL ASSESSMENT	\$ 35,999,666	G

KSBIT WC FUND ASSESSMENT CALCULATION

June 30, 2013

NOTES

- A - The Reserve Study engaged by the KYDOI Undiscounted Reserves is Greater than the audited financial statement reserves by \$1,375,179. This increases the deficit by that amount.
The Same reserve study discounted loss reserves at 3% this reduces the deficit by \$8,544,262
- B - The audited financial statements reflect as liabilities the balance of amounts contributed from other affiliated funds in 2004. The Rehabilitator has determined that only the Unemployment Fund contribution is to be repaid.
- C - The audited financial statements reflect the balance of a surplus note issued to KCL as a liability.
The Rehabilitator does not believe this note is a legal liability and has requested the Court to determine whether this is a liability.
- D - This is an estimate for claims transactions until the close date of the transfer of all claim liabilities.
- E - These are the estimated closing costs until the close date and for future rehabilitation operations.
- F - This is the amount of the KY Special Fund Assessment (KYSFA) calculated on the rate for each year Being Assessed
- G - This is the resulting total assessment amount including all costs and SFA.

11/6/2013

KSBIT WC
Restatement of Audited Financial Balance Sheet
as of 12/31/96 and 12/31/97

	Audited F S 12/31/1996	ADJUST FOR 6/30/13 Reserve Amounts	RESTATED 12/31/1996	Audited F S 12/31/1997	ADJUST FOR 6/30/13 Reserve Amounts	RESTATED 12/31/1997
Investments	22,106,890	-	22,106,890	23,616,696	-	23,616,696
Cash	1,747,588	-	1,747,588	1,237,106	-	1,237,106
Premium A/R Allowance	885,488 -	 -	 -	 -	 -	 -
Net Premium A/R	885,488	-	885,488	1,042,797	-	-
Excess Receivable Related Party	2,717,567 -	 -	 -	1,606,935 -	 -	 -
Accrued investment Property	433,070 -	 -	 -	179,040 -	 -	179,040 -
Deprec Net Property	 -	 -	 -	 -	 -	 -
Prepaid Expenses	278,523	-	278,523	-	-	-
Total Assets	28,169,126	-	28,169,126	27,682,574	-	26,639,777
Unpaid Loss & ALAE Reported	6,897,344	6,897,344	-	7,676,825	7,676,825	-
IBNR	13,607,193	13,607,193	-	12,070,704	12,070,704	-
ULAE	-	-	-	-	-	-
Increase for Discount Decrease For Discount *	 (26,588,090)	 26,588,090	 (29,187,126)	 29,187,126	 (9,439,597)	 29,187,126
Total Loss & ALAE	20,504,537	(6,083,553)	26,588,090	19,747,529	(9,439,597)	29,187,126
Prem Tax	81,351	-	81,351	229,850	-	229,850
A/P	106,511	-	106,511	132,407	-	132,407
A/P AUDit Actuaries Excess Premiums Due	 -	 -	 -	 -	 -	 -
Advance Premium	371,156	-	371,156	1,522,758	-	1,522,758
Total Liabilities	21,063,555	(6,083,553)	27,147,108	21,632,544	(9,439,597)	31,072,141
Payable to Affiliate Surplus Notes	 -	 -	 -	 -	 -	 -
Total liabilities Surplus Note	21,063,555	(6,083,553)	27,147,108	21,632,544	(9,439,597)	31,072,141
Equity W/O Suplus Notes	7,105,571	6,083,553	1,022,018	6,050,030	9,439,597	(4,432,364)
Total Liabilities & Equity	28,169,126	-	28,169,126	27,682,574	-	26,639,777

* This is the Discounted Net loss Reserves as of the balance sheet date. Using the current TW Actuarial Study.

**KSBIT WC FUND
COMPARATIVE INCOME STATEMENTS**

PERIOD ENDING >>>	12/31/1997	12/31/1998	12/31/1999	12/31/2000	12/31/2001	6/30/2003	6/30/2004	6/30/2005	6/30/2006
Earned Premiums	7,515,123	4,309,706	3,840,930	2,931,408	3,049,955	9,326,329	9,180,691	9,637,014	8,555,723
Investment Income	1,505,767	1,927,446	721,177	1,608,133	1,302,729	972,473	241,247	220,508	450,917
Tota Revenue	9,020,890	6,237,152	4,562,107	4,539,541	4,352,684	10,298,802	9,421,938	9,857,521	9,006,640
Administrative Expenses	2,002,084	1,877,439	1,122,168	1,742,858	964,043	1,203,157	749,662	902,609	1,429,567
ULAE Allocation	58,955	52,239	43,115	4,731	-	155,001	97,065	90,152	80,484
Net Incurred Losses	10,025,428	7,890,092	5,926,423	4,027,074	5,251,616	12,758,734	8,649,740	7,668,188	6,120,935
Gain Or (Loss) Beginning Equity	(3,065,577)	(3,582,618)	(2,529,599)	(1,235,122)	(1,862,975)	(3,818,090)	(74,529)	1,196,572	1,375,654
Loss to be Used for Assessment	(2,043,559)	(3,582,618)	(2,529,599)	(1,235,122)	(1,862,975)	(3,818,090)	(74,529)	-	-
Assessment Percentage For Each Period	5.9334%	10.4021%	7.3446%	3.5862%	5.4091%	11.0858%	0.2164%	0.0000%	0.0000%
Assessment Before SFA	1,980,529	3,472,118	2,451,578	1,197,027	1,805,515	3,700,328	72,231	-	-
SFA RATE	9.00%	9.00%	9.00%	9.00%	9.00%	11.50%	11.50%	10.25%	6.50%
SFA AMOUNT	178,248	312,491	220,642	107,732	162,496	425,538	8,307	-	-
TOTAL ASSESSMENT	2,158,777	3,784,609	2,672,220	1,304,759	1,968,011	4,125,866	80,537	-	-

**KSBIT WC FUND
COMPARATIVE INCOME STATEMENTS**

PERIOD ENDING >>>	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	TOTALS
Earned Premiums	7,494,158	6,146,311	6,356,360	6,024,875	6,307,563	6,850,581	7,365,823	104,892,549
Investment Income	818,069	1,007,817	584,450	111,784	570,559	(156,686)	825	11,887,214
Tota Revenue	8,312,227	7,154,128	6,940,810	6,136,659	6,878,122	6,693,895	7,366,648	116,779,763
Administrative Expenses	1,300,716	1,390,718	1,388,758	1,586,478	1,994,011	1,961,474	2,440,482	24,056,223
ULAE Allocation	112,158	108,773	128,365	146,723	198,517	233,539	294,614	1,804,430
Net Incurred Losses	7,696,251	6,857,272	7,704,519	7,730,540	9,501,402	8,490,814	7,511,278	123,810,306
Gain Or (Loss) Beginning Equity	(796,898)	(1,202,635)	(2,280,832)	(3,327,082)	(4,815,808)	(3,991,932)	(2,879,726)	(32,891,196)
Loss to be Used for Assessment	(796,898)	(1,202,635)	(2,280,832)	(3,327,082)	(4,815,808)	(3,991,932)	(2,879,726)	(34,441,404)
Assessment Percentage For Each Period	2.3138%	3.4918%	6.6224%	9.6601%	13.9826%	11.5905%	8.3612%	100.0000%
Assessment Before SFA	772,320	1,165,541	2,210,484	3,224,464	4,667,273	3,868,808	2,790,906	33,379,121
SFA RATE	6.50%	6.50%	6.50%	6.50%	6.50%	6.39%	6.28%	
SFA AMOUNT	50,201	75,760	143,681	209,590	303,373	247,217	175,269	2,620,544
TOTAL ASSESSMENT	822,520	1,241,302	2,354,165	3,434,054	4,970,646	4,116,025	2,966,175	35,999,666

**KSBIT WC 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	WC	SAMPLE	8/20/2012	2013	35,131	-	8,922	3.362	30,000	65,131	65,131
SAMPLE	WC	SAMPLE	8/20/2012	2013	-	-	-	-	-	-	-
SAMPLE	WC	SAMPLE	8/21/2012	2013	-	-	-	-	-	-	-
SAMPLE	WC	SAMPLE	8/21/2012	2013	-	-	-	-	-	-	-
SAMPLE	WC	SAMPLE	8/21/2012	2013	146	-	-	-	-	146	146
SAMPLE	WC	SAMPLE	8/21/2012	2013	289	-	-	-	-	289	289
SAMPLE	WC	SAMPLE	8/22/2012	2013	584	-	-	-	-	584	584
SAMPLE	WC	SAMPLE	8/22/2012	2013	-	-	-	-	-	-	-
SAMPLE	WC	SAMPLE	8/23/2012	2013	145	-	-	-	-	145	145
SAMPLE	WC	SAMPLE	8/23/2012	2013	2,799	-	-	-	-	2,799	2,799
SAMPLE	WC	SAMPLE	8/24/2012	2013	150	-	-	-	-	150	150
SAMPLE	WC	SAMPLE	8/24/2012	2013	19,096	-	29,785	3.362	100,152	119,247	100,000
SAMPLE	WC	SAMPLE	8/24/2012	2013	907	-	-	-	-	907	907
SAMPLE	WC	SAMPLE	8/27/2012	2013	-	-	-	-	-	-	-
SAMPLE	WC	SAMPLE	8/28/2012	2013	325	-	-	-	-	325	325
SAMPLE	WC	SAMPLE	8/28/2012	2013	-	-	-	-	-	-	-
SAMPLE	WC	SAMPLE	8/28/2012	2013	375	-	-	-	-	375	375
SAMPLE	WC	SAMPLE	8/28/2012	2013	375	-	-	-	-	375	375
SAMPLE	WC	SAMPLE	8/28/2012	2013	-	-	-	-	-	-	-
SAMPLE				2013	60,323	-	38,707		130,152	190,475	171,228

Earned Premium for 2013 (Also same amounts used for the member under Premium portion of assessment) \$ 150,000

Loss Ratio 114.15%
 Excess Loss Ratio 100.00%
14.15%

Excess Loss Amount \$ 21,228

Total Excess Losses \$ 2,110,690

SAMPLE MEMBERS SHARE OF 2013 ASSESSMENT (LOSS PORTION) 0.0100572

KSBIT WC FUND
ASSESSMENT DETAIL LISTING
(See Assessment Control For Options Used)
Amounts Reflected Include SFA

Assessment Includes SFA as selected>>		35,999,666	21,599,799	14,399,866	100.000%
MemNo	District	Total Assessment	Premium Portion	Loss Portion	% of Total Assessment
1000	ADAIR COUNTY BOARD OF EDUCATION	92,392	72,220	20,172	0.257%
1001	ALLEN COUNTY BOARD OF EDUCATION	102,680	85,466	17,214	0.285%
1002	ANCHORAGE IND. BOARD OF EDUCATION	46,233	38,320	7,913	0.128%
1003	ANDERSON COUNTY BOARD OF EDUCATION	73,487	68,437	5,050	0.204%
1004	ASHLAND IND. BOARD OF EDUCATION	120,575	58,749	61,826	0.335%
1005	AUGUSTA IND. BOARD OF EDUCATION	8,523	8,523	-	0.024%
1007	BALLARD COUNTY BOARD OF EDUCATION	212,288	143,173	69,114	0.590%
1008	BARBOURVILLE IND. BOARD OF EDUCATION	51,052	38,043	13,009	0.142%
1009	BARDSTOWN IND. BOARD OF EDUCATION	88,643	31,029	57,614	0.246%
1010	BARREN COUNTY BOARD OF EDUCATION	72,762	71,134	1,629	0.202%
1011	BATH COUNTY BOARD OF EDUCATION	156,462	74,463	81,999	0.435%
1012	BEECHWOOD IND. BOARD OF EDUCATION	34,668	18,045	16,623	0.096%
1013	BELL COUNTY BOARD OF EDUCATION	339,335	176,653	162,683	0.943%
1014	BELLEVUE IND. BOARD OF EDUCATION	37,594	10,810	26,784	0.104%
1015	BEREA IND. BOARD OF EDUCATION	51,759	12,851	38,908	0.144%
1017	BOONE COUNTY BOARD OF EDUCATION	1,579,896	1,442,065	137,831	4.389%
1018	BOURBON COUNTY BOARD OF EDUCATION	297,769	160,982	136,787	0.827%
1019	BOWLING GREEN IND. BOARD OF EDUCATION	47,056	46,975	80	0.131%
1020	BOYD COUNTY BOARD OF EDUCATION	116,884	97,364	19,520	0.325%
1021	BOYLE COUNTY BOARD OF EDUCATION	229,591	162,562	67,029	0.638%
1022	BRACKEN COUNTY BOARD OF EDUCATION	58,873	50,537	8,337	0.164%
1023	BREATHITT COUNTY BOARD OF EDUCATION	473,195	300,315	172,880	1.314%
1024	BRECKINRIDGE COUNTY BOARD OF EDUCATION	56,192	20,362	35,830	0.156%
1025	BULLITT COUNTY BOARD OF EDUCATION	812,342	542,314	270,028	2.257%
1026	BURGIN IND. BOARD OF EDUCATION	6,373	6,373	-	0.018%
1027	BUTLER COUNTY BOARD OF EDUCATION	58,245	58,245	-	0.162%
1028	CALDWELL COUNTY BOARD OF EDUCATION	35,900	28,934	6,966	0.100%
1029	CALLOWAY COUNTY BOARD OF EDUCATION	346,974	257,792	89,182	0.964%
1030	CAMPBELL COUNTY BOARD OF EDUCATION	28,041	27,798	243	0.078%
1031	CAMPBELLSVILLE IND. BOARD OF EDUCATION	122,331	64,226	58,104	0.340%
1032	CARLISLE COUNTY BOARD OF EDUCATION	317,758	64,053	253,705	0.883%
1033	CARROLL COUNTY BOARD OF EDUCATION	137,754	115,091	22,663	0.383%
1035	CASEY COUNTY BOARD OF EDUCATION	108,745	68,704	40,041	0.302%
1037	CAVERNA IND. BOARD OF EDUCATION	65,180	46,031	19,149	0.181%
1038	CENTRAL KENTUCKY EDUCATION COOPERATIVE	1,083	1,028	55	0.003%
1040	CHRISTIAN COUNTY BOARD OF EDUCATION	202,250	137,704	64,545	0.562%
1041	CLARK COUNTY BOARD OF EDUCATION	26,898	26,898	-	0.075%
1042	CLAY COUNTY BOARD OF EDUCATION	357,715	291,155	66,561	0.994%
1043	CLINTON COUNTY BOARD OF EDUCATION	17,905	17,905	-	0.050%
1044	CLOVERPORT IND. BOARD OF EDUCATION	24,637	24,637	-	0.068%
1045	CORBIN IND. BOARD OF EDUCATION	226,957	143,605	83,352	0.630%
1046	COVINGTON IND. BOARD OF EDUCATION	61,274	61,274	-	0.170%
1047	CRITTENDEN COUNTY BOARD OF EDUCATION	76,049	7,031	69,018	0.211%
1048	CUMBERLAND COUNTY BOARD OF EDUCATION	79,052	46,828	32,225	0.220%
1049	DANVILLE IND. BOARD OF EDUCATION	47,346	46,030	1,315	0.132%
1050	DAVIESS COUNTY BOARD OF EDUCATION	88,231	72,194	16,038	0.245%
1051	DAWSON SPRINGS IND. BOARD OF EDUCATION	52,272	11,212	41,060	0.145%
1052	DAYTON IND. BOARD OF EDUCATION	33,333	29,278	4,054	0.093%
1053	EAST BERNSTADT IND. BOARD OF EDUCATION	290,294	41,930	248,364	0.806%
1054	EDMONSON COUNTY BOARD OF EDUCATION	61,308	11,114	50,194	0.170%
1055	ELIZABETHTOWN IND. BOARD OF EDUCATION	107,875	81,648	26,227	0.300%
1056	ELLIOTT COUNTY BOARD OF EDUCATION	187,753	93,953	93,800	0.522%
1057	EMINENCE IND. BOARD OF EDUCATION	43,311	34,975	8,336	0.120%
1058	ERLANGER-ELSMERE IND. BOARD OF EDUCATION	33,643	22,766	10,878	0.093%
1059	ESTILL COUNTY BOARD OF EDUCATION	362,857	206,214	156,643	1.008%

ASSESSMENT DETAIL LISTING
(See Assessment Control For Options Used)
Amounts Reflected Include SFA

Assessment Includes SFA as selected>>		35,999,666	21,599,799	14,399,866	100.000%
MemNo	District	Total Assessment	Premium Portion	Loss Portion	% of Total Assessment
1060	FAIRVIEW IND. BOARD OF EDUCATION	71,918	41,478	30,440	0.200%
1061	FAYETTE COUNTY BOARD OF EDUCATION	2,958,366	2,008,536	949,830	8.218%
1062	FLEMING COUNTY BOARD OF EDUCATION	222,806	157,127	65,680	0.619%
1064	FT. THOMAS IND. BOARD OF EDUCATION	86,122	77,472	8,650	0.239%
1065	FRANKFORT IND. BOARD OF EDUCATION	192,684	87,681	105,003	0.535%
1066	FRANKLIN COUNTY BOARD OF EDUCATION	304,265	194,225	110,040	0.845%
1067	FULTON COUNTY BOARD OF EDUCATION	98,032	64,743	33,289	0.272%
1068	FULTON IND. BOARD OF EDUCATION	52,050	42,043	10,007	0.145%
1069	GALLATIN COUNTY BOARD OF EDUCATION	182,048	111,830	70,219	0.506%
1070	GARRARD COUNTY BOARD OF EDUCATION	186,117	135,730	50,387	0.517%
1071	GLASGOW IND. BOARD OF EDUCATION	70,866	28,820	42,046	0.197%
1072	GRANT COUNTY BOARD OF EDUCATION	7,859	7,859	-	0.022%
1073	GRAVES COUNTY BOARD OF EDUCATION	443,262	243,500	199,762	1.231%
1074	GRAYSON COUNTY BOARD OF EDUCATION	106,218	63,079	43,140	0.295%
1075	GREEN COUNTY BOARD OF EDUCATION	140,858	116,122	24,736	0.391%
1076	GREEN RIVER REGIONAL EDUCATION COOP.	6,158	3,743	2,414	0.017%
1077	GREENUP COUNTY BOARD OF EDUCATION	397,109	158,655	238,454	1.103%
1079	HANCOCK COUNTY BOARD OF EDUCATION	278,185	119,637	158,548	0.773%
1080	HARDIN COUNTY BOARD OF EDUCATION	466,214	373,160	93,054	1.295%
1081	HARLAN IND. BOARD OF EDUCATION	240,066	53,226	186,840	0.667%
1082	HARLAN COUNTY BOARD OF EDUCATION	78,450	16,185	62,265	0.218%
1083	HARRISON COUNTY BOARD OF EDUCATION	94,307	50,745	43,562	0.262%
1084	HARRODSBURG IND. BOARD OF EDUCATION	64,253	15,456	48,797	0.178%
1085	HART COUNTY BOARD OF EDUCATION	202,092	139,670	62,422	0.561%
1086	HAZARD IND. BOARD OF EDUCATION	54,585	25,936	28,649	0.152%
1087	HENDERSON COUNTY BOARD OF EDUCATION	143,566	109,012	34,554	0.399%
1088	HENRY COUNTY BOARD OF EDUCATION	183,581	78,616	104,965	0.510%
1089	HICKMAN COUNTY BOARD OF EDUCATION	57,305	57,305	-	0.159%
1090	HOPKINS COUNTY BOARD OF EDUCATION	169,083	92,747	76,336	0.470%
1091	JACKSON COUNTY BOARD OF EDUCATION	180,411	105,652	74,758	0.501%
1092	JACKSON IND. BOARD OF EDUCATION	34,210	27,304	6,905	0.095%
1095	JENKINS IND. BOARD OF EDUCATION	119,735	63,536	56,199	0.333%
1096	JESSAMINE COUNTY BOARD OF EDUCATION	23,246	10,559	12,687	0.065%
1097	JOHNSON COUNTY BOARD OF EDUCATION	61,037	41,181	19,856	0.170%
1098	KENTON COUNTY BOARD OF EDUCATION	637,755	419,917	217,838	1.772%
1099	KENTUCKY EDUCATIONAL DEV. CORP	101,326	18,116	83,211	0.281%
1100	KENTUCKY SCHOOL BOARDS ASSOCIATION	35,317	35,317	-	0.098%
1105	KENTUCKY VALLEY EDUCATIONAL COOPERATIVE	13,698	13,698	-	0.038%
1106	KNOTT COUNTY BOARD OF EDUCATION	445,678	301,074	144,604	1.238%
1107	KNOX COUNTY BOARD OF EDUCATION	259,205	179,352	79,852	0.720%
1108	LARUE COUNTY BOARD OF EDUCATION	26,854	22,822	4,032	0.075%
1109	LAUREL COUNTY BOARD OF EDUCATION	755,314	508,589	246,724	2.098%
1110	LAWRENCE COUNTY BOARD OF EDUCATION	303,850	141,390	162,460	0.844%
1111	LEE COUNTY BOARD OF EDUCATION	283,022	121,572	161,450	0.786%
1112	LESLIE COUNTY BOARD OF EDUCATION	321,111	133,845	187,267	0.892%
1113	LETCHER COUNTY BOARD OF EDUCATION	517,647	387,726	129,921	1.438%
1114	LEWIS COUNTY BOARD OF EDUCATION	454,088	136,314	317,774	1.261%
1115	LINCOLN COUNTY BOARD OF EDUCATION	411,130	188,778	222,352	1.142%
1116	LIVINGSTON COUNTY BOARD OF EDUCATION	135,945	67,796	68,149	0.378%
1117	LOGAN COUNTY BOARD OF EDUCATION	20,530	20,530	-	0.057%
1118	LUDLOW IND. BOARD OF EDUCATION	27,858	14,847	13,011	0.077%
1120	LYON COUNTY BOARD OF EDUCATION	50,906	11,892	39,014	0.141%
1121	MADISON COUNTY BOARD OF EDUCATION	968,300	670,906	297,395	2.690%
1122	MAGOFFIN COUNTY BOARD OF EDUCATION	363,271	201,944	161,327	1.009%
1123	MARION COUNTY BOARD OF EDUCATION	364,113	304,955	59,158	1.011%

ASSESSMENT DETAIL LISTING
(See Assessment Control For Options Used)
Amounts Reflected Include SFA

Assessment Includes SFA as selected>>		35,999,666	21,599,799	14,399,866	100.000%
MemNo	District	Total Assessment	Premium Portion	Loss Portion	% of Total Assessment
1124	MARSHALL COUNTY BOARD OF EDUCATION	192,158	106,895	85,264	0.534%
1125	MARTIN COUNTY BOARD OF EDUCATION	386,493	304,525	81,968	1.074%
1126	MASON COUNTY BOARD OF EDUCATION	96,386	50,617	45,769	0.268%
1127	MAYFIELD IND. BOARD OF EDUCATION	305,843	101,346	204,498	0.850%
1129	MCCRACKEN COUNTY BOARD OF EDUCATION	52,118	52,118	-	0.145%
1130	MCCREARY COUNTY BOARD OF EDUCATION	543,405	287,919	255,485	1.509%
1131	MCLEAN COUNTY BOARD OF EDUCATION	211,541	109,880	101,661	0.588%
1132	MEADE COUNTY BOARD OF EDUCATION	602,574	234,273	368,300	1.674%
1133	MENIFEE COUNTY BOARD OF EDUCATION	12,841	12,841	-	0.036%
1134	MERCER COUNTY BOARD OF EDUCATION	353,529	216,907	136,622	0.982%
1135	METCALFE COUNTY BOARD OF EDUCATION	47,064	24,302	22,762	0.131%
1136	MIDDLESBORO IND. BOARD OF EDUCATION	220,373	89,375	130,998	0.612%
1137	MONROE COUNTY BOARD OF EDUCATION	138,232	63,240	74,993	0.384%
1138	MONTGOMERY COUNTY BOARD OF EDUCATION	806,641	251,387	555,254	2.241%
1139	MONTICELLO IND. BOARD OF EDUCATION	155,612	57,333	98,279	0.432%
1140	MORGAN COUNTY BOARD OF EDUCATION	400,214	144,650	255,564	1.112%
1141	MUHLENBERG COUNTY	19,913	19,913	-	0.055%
1142	MURRAY IND. BOARD OF EDUCATION	45,511	20,375	25,136	0.126%
1143	NELSON COUNTY BOARD OF EDUCATION	158,758	82,285	76,473	0.441%
1144	NEWPORT IND. BOARD OF EDUCATION	121,765	42,415	79,349	0.338%
1145	NICHOLAS COUNTY BOARD OF EDUCATION	130,908	103,407	27,501	0.364%
1146	NORTHERN KY COOP. EDUCATIONAL SERVICES	19,357	12,413	6,944	0.054%
1147	OHIO COUNTY BOARD OF EDUCATION	468,653	281,577	187,077	1.302%
1148	OHIO VALLEY EDUCATIONAL COOP.	51,720	33,302	18,418	0.144%
1149	OLDHAM COUNTY BOARD OF EDUCATION	827	827	-	0.002%
1151	OWEN COUNTY BOARD OF EDUCATION	165,104	62,480	102,624	0.459%
1152	OWENSBORO IND. BOARD OF EDUCATION	200,002	95,226	104,776	0.556%
1153	OWSLEY COUNTY BOARD OF EDUCATION	104,246	66,637	37,609	0.290%
1154	PADUCAH IND. BOARD OF EDUCATION	107,533	84,645	22,888	0.299%
1155	PAINTSVILLE IND. BOARD OF EDUCATION	125,474	64,603	60,871	0.349%
1156	PARIS IND. BOARD OF EDUCATION	202,353	64,506	137,847	0.562%
1157	PENDLETON COUNTY BOARD OF EDUCATION	51,545	21,374	30,171	0.143%
1158	PERRY COUNTY BOARD OF EDUCATION	91,369	22,327	69,043	0.254%
1160	PIKEVILLE INDEPENDENT BOARD OF EDUCATION	150,081	63,338	86,744	0.417%
1161	PINEVILLE IND. BOARD OF EDUCATION	104,309	22,182	82,127	0.290%
1162	POWELL COUNTY BOARD OF EDUCATION	178,957	58,201	120,756	0.497%
1163	PROVIDENCE IND. BOARD OF EDUCATION	36,160	11,120	25,040	0.100%
1164	PULASKI COUNTY BOARD OF EDUCATION	267,010	120,966	146,044	0.742%
1165	RACELAND IND. BOARD OF EDUCATION	273,984	73,636	200,347	0.761%
1168	ROBERTSON COUNTY BOARD OF EDUCATION	29,905	28,029	1,876	0.083%
1169	ROCKCASTLE COUNTY BOARD OF EDUCATION	107,063	51,832	55,231	0.297%
1170	ROWAN COUNTY BOARD OF EDUCATION	507,356	366,800	140,557	1.409%
1172	RUSSELL INDEPENDENT BOARD OF EDUCATION	201,845	149,936	51,909	0.561%
1173	RUSSELLVILLE IND. BOARD OF EDUCATION	26,958	25,895	1,064	0.075%
1174	SCIENCE HILL IND. BOARD OF EDUCATION	35,722	32,564	3,158	0.099%
1175	SCOTT COUNTY BOARD OF EDUCATION	385,642	349,089	36,554	1.071%
1176	SHELBY COUNTY BOARD OF EDUCATION	211,402	173,335	38,067	0.587%
1177	SILVER GROVE IND. BOARD OF EDUCATION	29,552	16,556	12,996	0.082%
1178	SIMPSON COUNTY BOARD OF EDUCATION	105,534	78,353	27,181	0.293%
1179	SOMERSET IND. BOARD OF EDUCATION	5,611	3,722	1,888	0.016%
1181	SOUTHGATE IND. BOARD OF EDUCATION	3,070	3,070	-	0.009%
1182	SPENCER COUNTY BOARD OF EDUCATION	420,445	189,313	231,133	1.168%
1183	TAYLOR COUNTY BOARD OF EDUCATION	183,450	91,032	92,418	0.510%
1184	TODD COUNTY BOARD OF EDUCATION	237,889	151,884	86,005	0.661%
1185	TRIGG COUNTY BOARD OF EDUCATION	189,753	138,899	50,854	0.527%

KSBIT WC FUND
ASSESSMENT DETAIL LISTING
(See Assessment Control For Options Used)
Amounts Reflected Include SFA

Assessment Includes SFA as selected>>		35,999,666	21,599,799	14,399,866	100.000%
MemNo	District	Total Assessment	Premium Portion	Loss Portion	% of Total Assessment
1186	TRIMBLE COUNTY BOARD OF EDUCATION	74,716	21,857	52,859	0.208%
1187	UNION COUNTY BOARD OF EDUCATION	313,102	49,359	263,744	0.870%
1189	WALTON-VERONA IND. BOARD OF EDUCATION	34,802	17,103	17,699	0.097%
1190	WARREN COUNTY BOARD OF EDUCATION	366,340	331,643	34,698	1.018%
1191	WASHINGTON COUNTY BOARD OF EDUCATION	206,544	78,304	128,239	0.574%
1192	WAYNE COUNTY BOARD OF EDUCATION	440,708	263,322	177,386	1.224%
1193	WEBSTER COUNTY BOARD OF EDUCATION	37,004	36,367	637	0.103%
1194	WEST KENTUCKY EDUCATIONAL COOP.	25,924	25,227	697	0.072%
1196	WEST POINT IND. BOARD OF EDUCATION	33,927	13,457	20,470	0.094%
1197	WHITLEY COUNTY BOARD OF EDUCATION	540,305	361,432	178,872	1.501%
1199	WILLIAMSBURG IND. BOARD OF EDUCATION	71,080	71,080	-	0.197%
1200	WILLIAMSTOWN IND. BOARD OF EDUCATION	63,997	53,624	10,373	0.178%
1201	WOLFE COUNTY BOARD OF EDUCATION	23,822	15,814	8,008	0.066%
1202	WOODFORD COUNTY BOARD OF EDUCATION	237,429	168,943	68,486	0.660%
1203	Thorn Hill Center Foundation, Inc.	2,216	2,216	-	0.006%
4007	Campbellsville University	2,412	2,412	-	0.007%

KENTUCKY SCHOOL BOARDS INSURANCE TRUST

KENTUCKY SURPLUS NOTE
WORKERS COMPENSATION FUND

\$5,500,000.00

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 Five Million Five Hundred Thousand Dollars (\$5,500,000.00), 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 Workers Compensation Fund in the annual statement of the Trust that is required to be filed with

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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 to 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. 16, 2010.

KENTUCKY SCHOOL BOARDS INSURANCE TRUST

By: Delmar A. Mahan

Name: Delmar A. Mahan

Title: Chairman

Attest:

Robyn Miller

Name: Robyn Miller

Title: Corporate Attorney

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").

R E C I T A L S :

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.

A G R E E M E N T S :

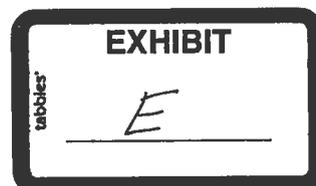
In consideration of the recitals, the agreements contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, KSBIT and KLC, intending to be legally bound, agree as follows:

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.



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: Debra 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

By: William H. Juett

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

KENTUCKY LEAGUE OF CITIES, INC.

By: *Neil Ashburn*

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 CIRCUIT COURT
DIVISION _____
CIVIL ACTION NO. _____

SHARON P. CLARK, IN HER
CAPACITY AS COMMISSIONER OF
KENTUCKY OFFICE OF
INSURANCE

PETITIONER

V.

ORDER OF REHABILITATION

KENTUCKY SCHOOL BOARDS
INSURANCE TRUST WORKERS'
COMPENSATION SELF INSURANCE
FUND, ET AL.

RESPONDENTS

*** **

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 Workers' Compensation Fund (the "Fund"). The Court has considered the Petition, is duly advised, and finds that the relief sought in the Petition should be immediately granted.

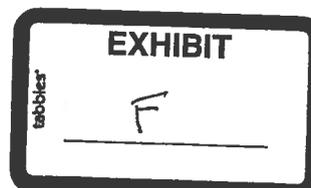
IT IS THEREFORE ORDERED, ADJUDGED and DECREED that:

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

(a) all the powers of the directors, officers, and managers of the 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 insurer;



(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 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 Fund.

2. The Rehabilitator is directed to take possession of all assets of KSBIT Workers' Compensation 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 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 Fund.

4. 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.

5. KSBIT Workers' Compensation Fund's fiscal administration and day-to-day operation shall continued 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.

6. The Rehabilitator is directed to provide accountings to this Court at intervals of every 3 months.

7. The Rehabilitator is authorized to employ Joseph N. Pope as a Special Deputy Rehabilitator and to compensate Mr. Pope at a rate of \$175.

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

Dated: _____

Judge, Franklin Circuit Court

COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIT COURT
DIVISION _____
CIVIL ACTION NO. _____

SHARON P. CLARK, IN HER
CAPACITY AS COMMISSIONER OF
KENTUCKY OFFICE OF
INSURANCE

PETITIONER

v.

ORDER APPROVING LOSS PORTFOLIO
TRANSFER AND ASSESSMENT PLAN

KENTUCKY SCHOOL BOARDS
INSURANCE TRUST WORKERS'
COMPENSATION SELF-INSURANCE
FUND, ET AL.

RESPONDENTS

*** **

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 Workers' Compensation Self-Insurance Fund (the "Fund"). The Court considered the Petition and entered an order appointing the Commissioner and her successors in office as the Rehabilitator of the 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 a Loss Portfolio Transfer Agreement (the "LPT Agreement") with Kentucky Employers Mutual Insurance ("KEMI"). The Court has considered the Petition, has considered the proposed LPT Agreement, and has considered any and all opposition thereto.

IT IS ORDERED, ADJUDGED AND DECREED that:



1. The Rehabilitator's plan to enter into a LPT Agreement with KEMI is in the best interests of the Fund's policyholders, injured worker claimants, and the public.
2. The LPT Agreement, as described in the Petition and as attached to the Petition as Exhibit B, 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. The Court approves the LPT Agreement and has determined and orders that all terms and conditions set forth therein are fair, reasonable, and in the best interest of the Fund's policyholders, injured worker claimants, and the public.
4. The Court approves the LPT Agreement and the terms and conditions thereof, including, *inter alia*:
 - (a) the transfer to KEMI of the workers' compensation Portfolio (as defined in the LPT Agreement) free and clear of all liens, claims and encumbrances of any kind, including all binders, contracts, certificates, and other obligations of the workers' compensation coverage issued by the Fund to its members prior to June 30, 2013 and identified in the LPT Agreement, together with the liability to pay all losses covered by the contracts of coverage to all Fund members as it may be limited by the LPT Agreement;
 - (b) the transfer and assignment to KEMI of all rights and interests of KSBIT and the Fund in all excess insurance policies and policies of reinsurance, irrespective of any restrictions or limitations contained in the excess insurance policies and policies of reinsurance respecting assignment or transfer thereof;
 - (c) the transfer of all accounting, actuarial and financial records, contract records, litigation files, claim files, other files, images, data, correspondence, books, documents and information of KSBIT and the Fund related to contracts of coverage, transferred claims, and excess insurance policies and policies of reinsurance;
 - (d) the payment to KEMI of \$35,000,000 (the "Transfer Payment") as contemplated by the LPT Agreement; and,
 - (e) the execution and delivery by the Rehabilitator and, as applicable, members of the Fund, of the Security Agreement, Memorandum of Understanding, and

Installment Payment Agreements as contemplated by the LPT Agreement, including the granting of the security interests and liens by the Rehabilitator and Fund securing the payment of the Transfer Payment and other obligations under the LPT Agreement to KEMI and the other terms and conditions of thereof.

5. The Court authorizes the Rehabilitator to execute and deliver the LPT Agreement, consummate the transactions contemplated by the LPT Agreement, and perform its obligations under the LPT Agreement, including execution and delivery of the additional agreements and documents contemplated thereby or that the Rehabilitator deems appropriate in connection therewith, the Rehabilitator being authorized to waive any conditions of the Rehabilitator's obligations and to take for itself and on behalf of the Fund such further actions as the Rehabilitator deems appropriate.

6. Following execution and delivery of the LPT Agreement by the Rehabilitator and KEMI, the Rehabilitator, the Fund, and KSBIT shall be bound to the terms and conditions of the LPT Agreement and the Rehabilitator shall perform its obligations thereunder, and KEMI shall not assume any liabilities or obligations of the Fund or KSBIT other than the "Assumed Liabilities" identified in the LPT Agreement and the Fund, and KSBIT shall retain all their other liabilities as contemplated by the LPT Agreement.

7. Pursuant to the Fund's Self-Insurance Agreements with its members, and pursuant to KRS 304.50-055, the Rehabilitator is to assess the Fund's members an aggregate amount necessary to pay the Transfer Payment to KEMI and to satisfy other liabilities and obligations of the Fund as the Rehabilitator deems appropriate.

IT IS THUS FURTHER ORDERED, ADJUDGED AND DECREED that:

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

9. The Rehabilitator is to levy the assessment against the members of the Fund as contemplated by the Assessment Plan; to permit the financing of the assessment payable by individual school districts as contemplated by the LPT Agreement, the form of Installment Payment Agreement attached to the LPT Agreement being hereby authorized and approved; 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 in full the Transfer Payment and all liabilities of the 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 Fund in order to satisfy the Transfer Payment and other liabilities of the Fund.

10. If any assessed member of the 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 304.50-055 and KRS 160.160(5) by the intercept of any payment due to such member from the Commonwealth of Kentucky (the "Intercept").

11. The Intercept is a lawful and proper mechanism to ensure payment of the Fund's members' assessment liabilities and to ensure payment of the assessment to the Rehabilitator and payment of the Transfer Payment to KEMI. In furtherance thereof, all instrumentalities of the Commonwealth involved in the allocation or delivery of payments due to a member of the 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.

12. Upon receipt of funds from such Intercept, the Rehabilitator is to deposit the funds into a deposit account(s) (the "Account(s)") established pursuant to the LPT Agreement, and thereafter remit such funds to KEMI as contemplated by the LPT Agreement and its related agreements.

13. The Rehabilitator is authorized to execute and deliver the Security Agreement (the "Security Agreement") as contemplated by the LPT Agreement. Upon execution and delivery of the Security Agreement, the filing of a financing statement with the Kentucky Secretary of State, and entering into a control agreement (the "Control Agreement"), as contemplated by the LPT Agreement with the depository and KEMI, KEMI shall have a valid and enforceable first and prior security interest and lien under applicable Kentucky law in the collateral described in the Security Agreement, including the assessment receivable and all future assessment receivables of the Fund, the Installment Payment Agreements, the Account(s) and all proceeds thereof, to secure payment of the Transfer Payment and the Rehabilitator's and the Fund's other obligations under the LPT Agreement.

14. If the Fund becomes subject to any liquidation proceeding under Subtitle 33 of KRS Chapter 304, the Transfer Payment will be deemed an administrative cost and expense of, and secured claim against, the Fund.

15. The Workers' Compensation Funding Commission's special funding assessment pursuant to KRS 342.122 shall apply to the assessment and be paid by the Rehabilitator to the Workers' Compensation Funding Commission as required by law, but the Transfer Payment paid

to KEMI under the LPT Agreement, shall not be subject to such special funding assessment and neither KEMI nor the Fund shall owe any special funding assessment on the Transfer Payment.

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

Dated: _____

Judge, Franklin Circuit Court