KENTUCKY WORKERS’ COMPENSATION FUNDING COMMISSION

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT AUDITORS

June 30, 2024 and 2023

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

TABLE OF CONTENTS
June 30, 2024 and 2023

Page

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kentucky Workers' Compensation Funding Commission
Frankfort, Kentucky

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the Kentucky Workers' Compensation Funding Commission (the Funding Commission), as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Funding Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Funding Commission, as of June 30, 2024 and 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Funding Commission and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Funding Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funding Commission's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Funding Commission's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 9 and the Schedule of the Funding Commission's Proportionate Share of the Net Pension Liability, the Schedule of the Funding Commission's Pension Contributions, the Schedule of the Funding Commission's Proportionate Share of the Net Other Postemployment Benefits (OPEB) Liability, and the Schedule of the Funding Commission's OPEB Contributions on pages 44–47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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 the 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 audit 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2024, on our consideration of the Funding Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Funding Commission's 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 Funding Commission's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
September 25, 2024

This narrative presents management's perspective of the fiscal year 2024 audit of the Special Fund, and the Self Insurance Fund. We hope our analysis will help readers understand the financial position and results of operations for these restricted funds.

Highlights of Fiscal Year 2024

- The investment portfolio of the Funding Commission saw a significant increase from $290 million as of June 30, 2023, to $304 million as of June 30, 2024. This represents a growth of $16 million or approximately 5.2% over the current fiscal year.
- The Funding Commission's returns on their total portfolio of 5.38% surpassed their benchmark of 3.51% for fiscal year 2024. In 2023 and 2022 total portfolio returns were (0.05%) and (2.07%), respectively, (0.15%) and (2.74%) below their benchmark.
- The actuarial evaluations affirm the Funding Commission's trajectory towards fully funding Special Fund liabilities by 2029.
- Despite the fluctuations in the market, the Funding Commission's strategy to maintain fixed-rate investments until maturity has ensured stability and predictability in its investment returns. This approach has allowed the Commission to navigate through 2024 and 2023 without significant disruptions.

Kentucky Workers' Compensation Funding Commission

Special Fund

The Kentucky Workers' Compensation Funding Commission (Funding Commission) was created through the enactment of House Bill No. 1 by the 1987 Extraordinary Session of the General Assembly, Commonwealth of Kentucky (Commonwealth) effective October 26, 1987, to act as an agency of the Commonwealth for the public purpose of controlling, investing, and managing the funds collected pursuant to House Bill No. 1, an act relating to workers' compensation. The Funding Commission collects workers' compensation Special Fund Assessments and uses such assessments to fund specific labor related programs, the Funding Commission, the Special Fund, and the Uninsured Employers' Fund. Accumulated assessments in excess of required transfers remain in the Benefit Reserve Fund and are invested in fixed income securities as recommended by the Funding Commission's investment advisory firm. In 2010, the General Assembly approved an extension of the sunset date from 2018 to 2029 for accumulating sufficient reserves to fund outstanding claims.

Self-Insurance Fund

The Self-Insurance Fund was established by Kentucky Revised Statute (KRS) 342.920 to protect employees of workers' compensation self-insured employers who had claims for injuries that occurred prior to the creation of the workers' compensation self-insurance guaranty funds. The Self-Insurance Fund was established for the purpose of making payments to workers' compensation claimants injured prior to March 1, 1997, when the security of a former self-insured employer has been depleted. All amounts collected after July 12, 2006, as fines and penalties under KRS 342.267 and 342.990 are paid into the Self-Insurance Fund. The Department of Workers Claims has collected fines and penalties which have been remitted to the Funding Commission for the purpose of investment. The Funding Commission has established a custodial fund, the Self-Insurance Fund, to account for the funds held and invested on behalf of the Department of Workers Claims.

Financial Statements

The audited financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position and a statement of cash flows for the years ended June 30, 2024 and 2023. The Funding Commission financial statements are blended with the Department of Workers' Claims and add the outstanding claim liabilities for the Special Fund in the Commonwealth of Kentucky financial statements.

The statement of net position presents information on all of the Funding Commission's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Funding Commission is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Funding Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows provides relevant information about the cash receipts and cash payments of the Funding Commission during the fiscal year. The statement should help users assess the Funding Commission's ability to generate future net cash flows, meet future obligations as they become due, the Funding Commission's need for future external financing, the reasons for the differences in operating and related cash receipts and payments, and the effects on the financial position of cash and non-cash investing, capital, non-capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Funding Commission as a Whole

Each of the funds managed by the Funding Commission are restricted for payment of specific types of claim liabilities. Therefore, an overall analysis of the Funding Commission financial statements must focus on each fund rather than the Funding Commission as a whole.

However, all investments of the Funding Commission are managed using the same Investment Policy Statement which establishes the following principles:

- Adherence to the "prudent man" rule that requires exercising that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence, who are familiar with such matters would follow in management of their own affairs in investment matters.
- Invest funds in a manner which will meet the unique objectives of each fund while minimizing the investment risk exposure of the funds; the primary goal being the safety of the principal and liquidity of the investments while providing the financial wherewithal to meet future benefit obligations.

- Utilize the Office of Financial Management and/or an investment consulting firm to provide expert, professional judgment related to investment decisions.
- Adoption of specific guidance for each category of assets to ensure a framework for monitoring quality, diversification, and liquidity.

Note 3 on pages 20 - 25 provides more details about risk management of the Funding Commission's investments. KRS 342.1223(2)(b) directs the Funding Commission to follow guidance in KRS Chapter 386 for investing the funds collected to finance the workers' compensation liabilities. KRS 386.020 outlines a variety of allowable investments for the funds administered by the Funding Commission.

Financial Analysis of Restricted Funds

Special Fund

Table 1 summarizes the net position of the Special Fund and Table 2 outlines the changes in net position for 2024, 2023 and 2022.

TABLE 1

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION
SPECIAL FUND SUMMARY OF NET POSITION
AS OF JUNE 30, 2024, 2023 AND 2022

	(Dollar amounts in Thousands)				
	2024	**% Change**	**2023**	**% Change**	**2022**
Current assets	$ 27,887	14.5%	$ 24,353	6.1%	$ 22,948
Long-term assets	303,767	4.9%	289,561	-0.6%	291,241
Total assets	331,654	5.7%	313,914	-0.1%	314,189
Deferred outflows of resources	5,191	256.8%	1,455	-4.4%	1,522
Total assets and deferrals	$ 336,845	6.8%	$ 315,369	-0.1%	$ 315,711
Current liabilities	$ 296	29.3%	$ 229	-16.4%	$ 274
Long-term liabilities	7,552	-25.4%	10,121	8.5%	9,331
Total liabilities	7,848	-24.2%	10,350	7.8%	9,605
Deferred inflows of resources	5,837	2541.2%	221	-58.1%	527
Total liabilities and deferrals	13,685	29.5%	10,571	4.3%	10,132
Restricted net position	$ 323,160	6.0%	$ 304,798	-0.3%	$ 305,579

Restricted investments increased primarily due to unrealized gains and investment income during the fiscal year.

TABLE 2

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION
SPECIAL FUND SUMMARY OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2024, 2023 AND 2022

	(Dollar amounts in Thousands)				
	2024	**% Change**	**2023**	**% Change**	**2022**
Operating revenues	$ 72,391	2.9%	$ 70,338	0.4%	$ 70,062
Operating expenses	(1,509)	44.9%	(2,741)	-0.3%	(2,733)
Nonoperating revenues (expenses)	15,542	172588.9%	9	100.0%	(37,157)
Transfers-claims	(36,275)	6.7%	(38,878)	3.5%	(40,280)
Transfers-administrative costs	(31,786)	-7.7%	(29,508)	3.2%	(30,496)
Change in net position	$ 18,363	2454.2%	$ (780)	98.1%	$ (40,604)

Operating revenues include assessments, penalties, and interest imposed as a result of audits of insurance companies and self-insured entities.

Transfers for both claims and administrative costs represent cash balances transferred to the Labor Cabinet to fund actual payments. In addition, claim transfers also include amounts remitted to the Attorney General's office for management of the Uninsured Employers Fund (claims and administrative costs). However, these amounts include changes in cash balances as well as shift in the underlying cost elements. Additional information about these amounts is provided in the Special Fund financial statements. Transfers to the Labor Cabinet and Kentucky Occupational Safety and Health were $31,800,000 and $29,500,000 and $30,500,000 for each fiscal year ending in 2024, 2023 and 2022, respectively. These transfers are also based on the Commonwealth's Enacted Budget.

Self-Insurance Fund

Table 3 summarizes the financial position of the Self-Insurance Fund and Table 4 outlines the changes in net position for 2024, 2023 and 2022.

TABLE 3

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION
SELF INSURANCE FUND SUMMARY OF NET POSITION
AS OF JUNE 30, 2024, 2023 AND 2022

(Dollar amounts in Thousands)

	2024	% Change	2023	% Change	2022
Current assets	$ 821	39.2%	$ 590	-0.7%	$ 594
Restricted investments	11,614	2.3%	11,351	44.2%	7,872
Total assets	$ 12,435	4.1%	$ 11,941	41.0%	$ 8,466
Current liabilities	$ 3	0.0%	$ 3	50.0%	$ 2
Restricted net position	$ 12,432	4.1%	$ 11,938	41.0%	$ 8,464

Restricted investments increased due to the additional funding provided by House Bill 448 as of June 30, 2024. Restricted investments increased due to the additional funding provided by House Bill 1 as of June 30, 2023.

TABLE 4

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION
SELF INSURANCE FUND SUMMARY OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2024, 2023 AND 2022

(Dollar amounts in Thousands)

	2024	% Change	2023	% Change	2022
Penalty and interest collected for another government	$ 966	6.0%	$ 911	-0.4%	$ 915
Net investment earnings	594	465.7%	105	108.4%	(1,246)
Legal settlement	2,931	100.0%	-0-	0.0%	-0-
State appropriation	1,300	-94.3%	23,000	0.0%	-0-
Distributions to another government	(5,296)	74.2%	(20,543)	-2639.1%	(750)
Change in net position	$ 495	-85.7%	$ 3,473	421.3%	$ (1,081)

The net position of the Self-Insurance Fund in fiscal year 2024 increased as a result of the settlement proceeds disclosed in Note 12 to the financial statements. The net position of the Self-Insurance Fund in fiscal year 2023 increased as a result of additional funding provided by House Bill 1.

Current Year's Budget

The Funding Commission's operating budget, which includes transfers to Workers Claims, the Uninsured Employers Fund, Kentucky Occupational Safety and Health, and the Funding Commission (administrative expenses) for fiscal years 2024, 2023 and 2022 was $89.7, $91.2 and $80.4 million, respectively. Actual expenditures were $69.7 million (78% of budget) in fiscal 2024, $70.4 million (77% of budget) in fiscal 2023 and $71.7 million (89% of budget) in fiscal 2022.

Currently Known Facts, Decisions, or Conditions

House Bill 448, enacted during the 2023 Regular Session, allocated $1.3 million to the Kentucky Worker's Compensation Funding Commission. Acting as the custodian for the Self-Insurance Fund, the Commission transferred these funds to the Group Self-Insurance Guaranty. This appropriation, sourced from excess restricted funds within the Department of Insurance, aims to support the Kentucky Group Self-Insurance Guaranty Fund, ensuring it can effectively provide compensation to eligible workers who suffer job-related injuries.

Contacting the Funding Commission's Financial Management

This discussion and analysis are intended to provide a general overview of the finances and operations of the Funding Commission. If further information is needed, please contact Kim C. Hay, Director of Fiscal Operations, Kentucky Workers' Compensation Funding Commission, 42 Mill Creek Park, Frankfort, KY 40601, 502-931-1110.

Sincerely,

Kim C. Hay
Director of Fiscal Operations
Funding Commission

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

STATEMENTS OF NET POSITION
JUNE 30, 2024 AND 2023

	2024	2023
Assets:		
Current assets:		
Cash and cash equivalents	$ 7,632,604	$ 4,964,006
Accounts receivable	81,403	154,569
Assessments receivable	16,944,861	16,186,931
Accrued interest receivable	3,228,571	3,047,316
Total current assets	27,887,439	24,352,822
Restricted investments	303,690,326	289,445,242
Right-of-use asset	76,859	115,288
Total assets	331,654,624	313,913,352
Deferred outflows of resources:		
Deferred outflows - pension	4,158,756	1,069,224
Deferred outflows - OPEB	1,032,077	386,267
Total deferred outflows of resources	5,190,833	1,455,491
Total assets and deferrals	$ 336,845,457	$ 315,368,843
Liabilities:		
Current liabilities:		
Accrued expenses	$ 171,522	$ 150,625
Compensated absences	85,006	40,145
Lease liability	39,726	37,894
Total current liabilities	296,254	228,664
Noncurrent liabilities:		
Long-term compensated absences	57,945	87,797
Lease liability	41,646	81,372
Net pension liability	7,024,507	8,570,306
Other post-employment benefits liability	428,379	1,381,308
Total noncurrent liabilities	7,552,477	10,120,783
Total liabilities	7,848,731	10,349,447
Deferred inflows of resources:		
Deferred inflows - pension	4,224,777	10,041
Deferred inflows - OPEB	1,611,930	211,354
Total deferred inflows of resources	5,836,707	221,395
Total liabilities and deferrals	13,685,438	10,570,842
Net Position:		
Restricted	$ 323,160,019	$ 304,798,001

See accompanying notes to the financial statements.

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
Operating revenues:		
General assessments	$ 71,098,110	$ 70,059,310
Penalty and interest income	873,083	65,810
Audit reimbursements	419,704	213,000
Total operating revenues	72,390,897	70,338,120
Operating expenses	1,509,157	2,741,136
Net operating income (loss)	70,881,740	67,596,984
Nonoperating revenues (expenses):		
Net increase (decrease) in the fair value of investments	1,673,404	(12,777,750)
Interest expense	(4,997)	(6,745)
Interest revenue	13,873,871	12,793,572
Total nonoperating revenues (expenses)	15,542,278	9,077
Income before operating transfers	86,424,018	67,606,061
Operating transfers:		
Workers' compensation payments:		
Department of workers' claims	(30,317,200)	(32,666,700)
Uninsured employers fund	(5,958,500)	(6,212,000)
Administrative expenses:		
Labor Cabinet	(31,223,400)	(28,779,345)
Kentucky Occupational Safety and Health	(562,900)	(728,400)
Total operating transfers	(68,062,000)	(68,386,445)
Changes in net position	18,362,018	(780,384)
Net position, beginning of year	304,798,001	305,578,385
Net position, end of year	$ 323,160,019	$ 304,798,001

See accompanying notes to the financial statements.

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
Operating activities:		
Assessments collected:		
Special Fund-public	$ 69,238,199	$ 70,389,471
Special Fund-state	1,186,850	1,201,549
Penalty and interest collected	873,083	65,810
Audit expense reimbursements	419,704	213,000
Cash payments for:		
Refunds	(61,703)	(4,823)
Goods and services	(243,195)	(235,404)
Employee salaries and benefits	(1,599,006)	(1,711,675)
Overhead allocation	(181,403)	(177,671)
Net cash flows from operating activities	69,632,529	69,740,257
Noncapital financing activities:		
Operating transfers to:		
Workers compensation claims	(36,275,700)	(38,878,700)
Labor Cabinet	(31,223,400)	(28,779,345)
Kentucky Occupational Safety and Health Review Commission	(562,900)	(728,400)
Net cash used in noncapital financing activities	(68,062,000)	(68,386,445)
Capital financing activities:		
Principal payments on lease liability	(37,894)	(36,146)
Interest paid on lease liability	(4,997)	(6,745)
Net cash used in capital financing activities	(42,891)	(42,891)
Investing activities:		
Investment income	13,692,616	12,716,556
Investment purchases	(29,815,804)	(38,355,531)
Investment sales and maturities	17,264,148	27,254,608
Net cash flows from investing activities	1,140,960	1,615,633
Net change in cash and cash equivalents	2,668,598	2,926,554
Cash and cash equivalents, beginning of year	4,964,006	2,037,452
Cash and cash equivalents, end of year	$ 7,632,604	$ 4,964,006

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
Reconciliation of net operating income to net cash flows from operating activities		
Net operating income	$ 70,881,740	$ 67,596,984
Amortization	38,429	38,429
Adjustments to reconcile net operating income to net cash flows from operating activities		
(Increase) decrease in:		
Accounts receivable	73,166	(60,145)
Assessments receivable	(757,930)	1,659,047
Deferred outflows	(3,735,342)	66,010
Increase (decrease) in:		
Accrued expenses	873	(6,177)
Compensated absences	15,009	(13,706)
Refunds payable	-0-	(22,015)
Interfund payable	-0-	(50,000)
Deferred inflows	5,615,312	(305,881)
Other post-employment benefits liability	(952,929)	55,583
Net pension liability	(1,545,799)	782,128
Net cash flows from operating activities	$ 69,632,529	$ 69,740,257
Supplemental disclosure of noncash investing activities:		
Net change in fair value of investments	$ 1,673,404	$ (12,777,750)

See accompanying notes to the financial statements.

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

STATEMENTS OF FIDUCIARY NET POSITION–CUSTODIAL FUND
JUNE 30, 2024 AND 2023

	2024	2023
Assets:		
Current assets:		
Cash and cash equivalents	$ 741,225	$ 514,449
Penalty receivable	-0-	17,525
Accrued interest receivable	80,273	57,537
Total current assets	821,498	589,511
Other assets:		
Investments	11,614,240	11,350,594
Total assets	$ 12,435,738	$ 11,940,105
Liabilities:		
Current liabilities:		
Accounts payable	$ 3,106	$ 3,010
Total current liabilities	3,106	3,010
Net Position:		
Restricted for:		
Organizations and other governments	$ 12,432,632	$ 11,937,095

See accompanying notes to the financial statements.

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION–CUSTODIAL FUND
JUNE 30, 2024 AND 2023

	2024	2023
Additions:		
Penalty and interest	$ 966,091	$ 910,827
Investment interest	416,975	383,875
Net increase in the fair value of investments	177,471	-0-
Legal settlement	2,931,000	-0-
State appropriation	1,300,000	23,000,000
Total additions	5,791,537	24,294,702
Deductions:		
Net decrease in the fair value of investments	-0-	279,179
Distributions to other governments	5,296,000	20,542,566
Total deductions	5,296,000	20,821,745
Change in net position	495,537	3,472,957
Net position - beginning of year	11,937,095	8,464,138
Net position - end of year	$ 12,432,632	$ 11,937,095

See accompanying notes to the financial statements.

1. GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kentucky Worker's Compensation Funding Commission

The Kentucky Workers' Compensation Funding Commission (Funding Commission) was created by Kentucky Revised Statute (KRS) 342.1223 effective October 26, 1987, to act as an agency of the Commonwealth of Kentucky (Commonwealth) for the public purpose of controlling, investing, and managing the funds collected pursuant to KRS 342.1222. The Funding Commission collects workers' compensation Special Fund assessments and transfers such amounts as are necessary to pay administrative expenses and current claims of the Workers' Compensation Special Fund (Special Fund) and the Uninsured Employers' Fund. Accumulated Special Fund assessments in excess of required transfers remain in the Benefit Reserve Fund of the Funding Commission.

Special Fund

The assessments authorized by the enabling legislation are intended to generate an amount projected to provide sufficient cash reserves to fund the Commonwealth's workers' compensation subsequent injury liability incurred prior to December 12, 1996, the liabilities of the Commonwealth's Uninsured Employers' Fund, plus the payment of various administrative costs for the Labor Cabinet. These assessments are accumulated and reported in the Special Fund in the accompanying financial statements. In accordance with KRS 342.122, the Funding Commission shall impose annually a Special Fund assessment rate, which was 6.53% and 6.94% for calendar years 2024 and 2023, respectively, upon the amount of workers' compensation premiums received by insurance carriers writing workers' compensation insurance in the Commonwealth, by every group of self-insurers operating under the provisions of KRS 342.350(4) and against the premium, as defined in KRS 342.0011, of every employer carrying his or her own risk. Each calendar year, the Funding Commission shall adjust the Special Fund assessment rate to produce enough revenue to amortize, on a level basis, the projected liability of the Special Fund. In January 2010, the Kentucky General Assembly revised this statute to extend the sunset date for achieving full-funded status from December 31, 2018, to December 31, 2029.

Self-Insurance Fund

The Self-Insurance Fund was established by KRS 342.920 to protect employees of workers' compensation self-insured employers who had claims for injuries that occurred prior to the creation of the workers' compensation self-insurance guaranty funds. The Self-Insurance Fund was established for the purpose of making payments to workers' compensation claimants injured prior to March 1, 1997, when the security of a former self-insured employer has been depleted.

All amounts collected after July 12, 2006, as fines and penalties under KRS 342.267 and 342.990 are paid into the Self-Insurance Fund. The Department of Claims has collected fines and penalties which have been remitted to the Funding Commission for the purpose of investment. The Funding Commission has established a custodial fund, the Self-Insurance Fund, to account for the funds held and invested.

Reporting Entity

The Funding Commission's activities are combined with the workers' compensation liability and activity of the Special Fund and the Uninsured Employers' Fund and accounted for by the Commonwealth in a public entity risk sharing pool in the Commonwealth's Annual Comprehensive Financial Report (ACFR).

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for state governments as prescribed by the GASB. The Special Fund is presented as an enterprise fund and reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Kentucky Workers' Compensation Funding Commission reports the Special Fund as the only major proprietary fund.

Additionally, the Funding Commission reports the Self-Insurance Fund as a custodial fund, which account for funds held for custodial purposes only. The custodial fund is reported using the economic resources measurement focus and the accrual basis of accounting. The recognition of certain liabilities to beneficiaries occurs when an event compels the government to disburse fiduciary resources such as when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Kentucky Workers' Compensation Funding Commission are assessments levied on insurance companies and employers. Operating expenses for proprietary funds include administrative expenses. Non-operating revenues and expenses include investment related transactions, including net changes in fair values, management fees, interest, and dividend income. Transfers to fund workers' compensation claims and Labor Cabinet administrative expenses are also segregated in the statement of revenues, expenses, and changes in net position.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the related disclosures. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results could differ from estimated amounts.

Description of Net Position Classes

Restricted net position is a component of net position with constraints placed on net position used through external restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or limitations imposed by law through constitutional provisions or enabling legislation. All assets of the Funding Commission's proprietary fund are restricted by enabling legislation in KRS 342.1227, 342.1242, and 393.080 for the payment of workers' compensation claims or Labor Cabinet administrative expenses.

Net investment in capital assets is a component of net position that consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Unrestricted net position is a component of net position that does not meet the definition of "restricted" or "net investment in capital assets." However, all assets of the Funding Commission meet the definition of restricted net position.

Cash and Cash Equivalents

The Funding Commission considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivables are reported at their net invoice amounts and are reduced by the estimated portion that is expected to be uncollectible, if appropriate. At June 30, 2024 and 2023, management considered all receivables to be fully collectible. Accordingly, there was no allowance for uncollectible receivables.

Certain receivables result from premium audits performed by the Funding Commission. A receivable is recognized on all finalized premium audits where the amounts due for additional assessments, penalty, interest, and audit expenses are not in protest. Receivables are not recognized on premium audits where the amount due is under protest by the insurance carrier or self-insurer.

Assessments Receivable

Assessments receivable consists of amounts outstanding at the end of the year and expected to be collected within sixty days of the fiscal year-end.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of net position. Changes in the fair value of investments are included in the change in net position in the accompanying statement of revenues, expenses, and changes in net position.

Operating and Nonoperating Revenues

The Funding Commission defines operating revenues as revenues incurred through the normal operations of the Funding Commission, which includes the premium assessments, penalties and interest, and billings for audit cost reimbursements. Non-operating revenues include investment earnings and changes in fair value, as well as transfers from other funds of the Commonwealth.

Pension and Post-employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the pension and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Kentucky Employees' Retirement System (KERS) and addition to/deductions from KERS's fiduciary net position have been determined on the same basis as they are reported by the Funding Commission.

KERS recognizes benefit payments (including refunds of employee contributions) when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The KERS Non-hazardous Insurance Funds are reported as OPEB trust funds and are accounted for on the accrual basis of accounting.

Fiduciary Funds

Following the Funding Commission's financial statements are separate financial statements for fiduciary funds. Fiduciary funds are excluded from the Funding Commission's financial statements as these assets are held in a custodial capacity for the various outside organizations and cannot be used to support the Funding Commission's programs. The Funding Commission's Self-Insurance Fund is reported under the fiduciary funds.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements. The Funding Commission has not determined and is currently evaluating the impact that these new accounting pronouncements will have on its future financial statements. When they become effective, the application of these standards may restate portions of these financial statements, if applicable.

GASB Statement No. 101, *Compensated Absences*, will be effective for fiscal years beginning after December 15, 2023. The objective of this new guidance is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences under a unified model and by amending certain previously required disclosures.

GASB Statement No. 102, *Certain Risk Disclosures,* will be effective for fiscal years beginning after June 15, 2024. The objective of this new guidance is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

2. CASH AND CASH EQUIVALENTS

A portion of the restricted cash and cash equivalents managed by the Funding Commission are part of the Commonwealth's cash and investments pool, which has statutory responsibility and authority to safeguard the funds. Legally authorized investments generally include obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper; and repurchase agreements. The Commonwealth is also eligible to engage in reverse repurchase agreements. See the Commonwealth's Comprehensive Annual Financial Report for the years ended June 30, 2024 and 2023, for disclosure of the credit risk classifications of the cash and investment pool.

As of June 30, 2024 and 2023, cash and cash equivalents consist of the following:

	June 30, 2024		June 30, 2023	
	Special Fund	Custodial Fund Self Insurance Fund	Special Fund	Custodial Fund Self Insurance Fund
Deposits in state pool	$ 4,124,013	$ 702,903	$ 431,806	$ 446,219
State Street Institutional Liquid Reserves Fund	3,508,591	38,322	4,532,200	68,230
	$ 7,632,604	$ 741,225	$ 4,964,006	$ 514,449

3. INVESTMENTS

Investment Policy

KRS 342.1223(2)(b) directs the Funding Commission to follow guidance in KRS Chapter 386 for investing the funds collected to finance the workers' compensation liabilities. KRS 386.020 outlines a variety of allowable investments for the funds administered by the Funding Commission. The Funding Commission uses the services of an investment consulting firm.

The Funding Commission Board of Directors Investment Policy Statement provides more specific guidance for staff, investment counsel, and individual investment managers. The Directors' Policy Statement, which was updated in Fiscal year 2022, is based on the following key principles:

- Adherence to the "prudent man" rule that requires exercising that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence, who are familiar with such matters would follow in management of their own affairs in investment matters.

- Invest funds in a manner which will meet the unique objectives of each fund while minimizing the investment risk exposure of the funds; the primary goal being the safety of the principal and liquidity of the investments while providing the financial wherewithal to meet future benefit obligations.
- Utilize the Office of Financial Management and/or an investment consulting firm to provide expert, professional judgment related to investment decisions.
- Adoption of specific guidance for each category of assets to ensure a framework for monitoring quality, diversification, and liquidity.

The Investment Policy Statement also provides specific guidance for investment managers regarding reporting and other communications, diversification, risk management, asset allocation, statutory restrictions, safety, liquidity, and total return goals, plus a list of authorized investments. Authorized investments outlined in the Investment Policy Statement include:

Fixed Income Securities:

- United States Treasury securities, agencies, and other obligations backed by the full faith and credit of the United States Government.
- United States Government and United States Government Agency guaranteed mortgage pools.
- Bank Certificates of Deposit rated A or better by a recognized rating service; limited to no more than 5% of the total fund assets.
- Domestic and foreign corporate obligations with investment grade ratings by a recognized rating service at the time of purchase.
- Bankers' Acceptances which originated by a bank rated in one of the top three rating categories by a recognized rating service, subject to a limitation of 10% of fund assets and no more than 2.5% in a single issue. However, the combined total of Banker's Acceptances and Commercial paper will not exceed 10% of total fund assets.
- Repurchase Agreements, collateralized at 102% of market value with United States Treasuries and agencies. These agreements must be governed by the Public Securities Association Master Repurchase Agreement.
- Money Market accounts and Mutual Funds approved by the Board.
- Investments not subject to KRS 342.1227.
- Other investments as approved by the Funding Commission.

Equity:

- Each manager's portfolio will hold at least 20 positions.
- No single issuer shall exceed 12 percent of the manager's portfolio at cost or 15 percent at market.

- There shall be no purchase which would cause a position in the portfolio to equal or exceed five percent of the issue outstanding.
- Non-marketable securities are not allowed.
- Derivatives are generally excluded for risk management or leveraging positions.

Balances among the asset classes and the percentages of the Special Fund and Self-Insurance Fund portfolios as of June 30, 2024 and 2023 are outlined in the following table:

	June 30, 2024		June 30, 2023	
Types of Securities	**Balance**	**%**	**Balance**	**%**
Enterprise:				
Special Fund:				
Fixed income	$ 301,503,926	99.3%	$ 287,171,242	99.2%
Equities	2,186,400	0.7%	2,274,000	0.8%
Restricted investments	$ 303,690,326	100.0%	$ 289,445,242	100.0%
Custodial:				
Self-Insurance Fund:				
Investments in state pool	$ 393,858	3.4%	$ 669,957	5.9%
Fixed income	11,220,382	96.6%	10,680,637	94.1%
	$ 11,614,240	100.0%	$ 11,350,594	100.0%

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The following investment tables outline the weighted average maturities for each category of investments held by the respective funds. Fixed income security performance is evaluated against various Barclay's indices net of management fees. The Funding Commission has elected to use the duration method to outline the potential interest rate risk in the fixed income portfolio. The Investment Policy Statement requires managers to maintain their portfolio's effective duration within 25% of the benchmark's effective duration. The following table details the effective duration by investment type for each investment in the fixed income portfolio of the Special Fund and Self-Insurance Fund.

Investment Type	Fair Value	Effective Duration
Enterprise:		
Special Fund:		
Corporate Bonds	$ 144,508,120	4.99
Emerging Markets Corporate Bonds	1,837,196	10.77
U.S. Treasury Notes and Bonds	52,226,640	5.09
Taxable Municipals	34,957,988	6.40
U.S. Agency Mortgage-Backed Securities	24,125,831	4.23
Asset Backed Securities	16,956,959	2.22
Collateralized Mortgage Obligations	19,574,168	6.76
Collateralized Mortgage-Backed Securities	7,075,399	3.29
Local Government	241,625	11.59
Total Special Fund Fixed Income Securities	$ 301,503,926	
Custodial:		
Self-Insurance Fund:		
Corporate Bonds	$ 4,920,783	3.92
U.S. Treasury Notes and Bonds	2,453,581	2.14
Taxable Municipals	476,262	8.67
U.S. Agency Mortgage-Backed Securities	1,624,996	5.87
Asset Backed Securities	1,519,184	4.94
Collateralized Mortgage-Backed Securities	225,576	5.69
Total Self-Insurance Fund Fixed Income Securities	$ 11,220,382	

Credit Risk of Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investment policy limits credit risks on investments by prescribing allowable credit ratings for specific types of investments as described above. The following investment tables present the credit ratings for each investment type held in the fixed income portfolio by the respective funds.

Investment Type	Market Value	Ratings	Percent
Enterprise:			
Special Fund:			
Corporate Bonds	$ 144,508,120	BBB- through AA-	47.9%
Emerging Markets Corporate Bonds	1,837,196	BBB- and BBB	0.6%
U.S. Treasury Notes and Bonds	52,226,640	U. S. Treasuries	17.3%
Taxable Municipals	34,957,988	A through AAA	11.6%
U.S. Agency Mortgage-Backed Securities	24,125,831	AA+ and AAA	8.0%
Asset Backed Securities	16,956,959	A- and AAA	5.6%
Collateralized Mortgage Obligations	19,574,168	AA+ and AAA	6.5%
Collateralized Mortgage-Backed Securities	7,075,399	A- through AAA	2.3%
Local Government	241,625	AA	0.2%
Total Special Fund Fixed Income Securities	$301,503,926		100.0%
Custodial:			
Self-Insurance Fund:			
Corporate Bonds	$ 4,920,783	BBB- through A+	43.9%
U.S. Treasury Notes and Bonds	2,453,581	U. S. Treasuries	21.9%
Taxable Municipals	476,262	A through AAA	4.2%
U.S. Agency Mortgage-Backed Securities	1,624,996	AA+ through AAA	14.5%
Asset Backed Securities	1,519,184	AA+ through AAA	13.5%
Collateralized Mortgage-Backed Securities	225,576	AA+ through AAA	2.0%
Total Self-Insurance Fund Fixed Income Securities	$ 11,220,382		100.0%

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Funding Commission's investment policy specifically outlines a strategy to manage the concentration of credit risk:

- Other than specified below, the maximum allocations per issuer by credit ratings for corporate bonds, non-agency residential and commercial backed mortgages and asset backed securities as follows: AAA, 5%; AA, 4%; A, 3%; and BBB, 2%.
- No more than 10% of the total fund may be invested in any one U.S. government agency issuer.

- No more than 3% of the total fund may be invested in any one issue of a GNMA mortgage-backed security or agency mortgage-backed security.
- No more than 10% of the total fund may be invested in securities of foreign countries.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of failure of the counter party, the Funding Commission will be able to recover the value of its investments or collateral securities that are in possession of an outside party. As of June 30, 2024 and 2023, the Funding Commission's investments are either insured or held by the Funding Commission's custodian in the Funding Commission's name.

4. ACCOUNTS RECEIVABLE AND REFUNDS PAYABLE

As discussed in Note 1, certain receivables result from premium audits performed by the Funding Commission. A receivable is recognized on all finalized premium audits where the amounts due for additional assessments, penalty, interest, and audit expenses are not in protest. Receivables are not recognized on premium audits where the amount due is under protest by the insurance carrier or self-insurer. As of June 30, 2024 and 2023, there was approximately $623,543 and $226,352, respectively in audit assessments outstanding for non-finalized premium audits under protest for which no receivable or revenue has been recognized in the accompanying financial statements.

General and special assessments previously collected may become refundable as a result of premium audits and claim settlements. At both June 30, 2024 and 2023, there were approximately $0 in refunds payable accrued as a result of premium audits in the Special Fund.

In addition to refunds paid as a result of premium audits, refunds of previously paid assessments may also be requested by insurance carriers for various reasons including errors in previous assessments calculations or adjustments to previously reported premiums. These requests are generally deducted immediately from the next quarterly assessments without prior approval and are verified by the Funding Commission through subsequent premium audits. Accordingly, in June 30, 2024 and 2023, refund requests have been deducted from assessments collected for which the approval process has not been completed. However, no receivable or liability has been accrued since the amount ultimately to be approved cannot be reasonably estimated.

5. INTANGILE RIGHT-TO-USE ASSET AND LEASE LIABILITY

As of June 30, 2021, the Funding Commission had leased a building from the Rainier Frankfort Acquisitions, LLC, to use as an office space. The intangible right-to-use asset is being amortized over 5 years, the term of the current lease.

Intangible right-to-use asset activity for the year ended June 30, 2024 is as follows:

	June 30, 2023	Additions	Transfers & retirements	June 30, 2024
Intangible right-to-use asset:				
Leased building	$ 153,717	$ -0-	$ -0-	$ 153,717
Less:				
Accumulated amortization	38,429	$ 38,429	$ -0-	$ 76,858
Intangible right-to-use asset, net	$ 115,288	$ (38,429)	$ -0-	$ 76,859

Intangible right-to-use asset activity for the year ended June 30, 2023 is as follows:

	June 30, 2022	Additions	Transfers & retirements	June 30, 2023
Intangible right-to-use asset:				
Leased building	$ 153,717	$ -0-	$ -0-	$ 153,717
Less:				
Accumulated amortization	-0-	$ 38,429	$ -0-	$ 38,429
Intangible right-to-use asset, net	$ 153,717	$ (38,429)	$ -0-	$ 115,288

The currently quarterly payment is $10,723. The lease liability is reported at the net present value using the discount rate of 4.75%.

Lease liability activity for the year ended June 30, 2024 is as follows:

	June 30, 2023	Additions	Reductions	June 30, 2024	Due within One year
Leased liability	$ 119,266	$ -0-	$ 37,894	$ 81,372	$ 39,726

Lease liability activity for the year ended June 30, 2023 is as follows:

	June 30, 2022	Additions	Reductions	June 30, 2023	Due within One year
Leased liability	$ -0-	$ 155,412	$ 36,146	$ 119,266	$ 37,894

Remaining payments on this lease obligation are as follows:

	Building lease		
	Principal	Interest	Total
2025	$ 39,726	$ 3,165	$ 42,891
2026	41,646	1,244	42,890
Totals	$ 81,372	$ 4,409	$ 85,781

6. COMPENSATED ABSENCES

The policy of the Funding Commission is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.50 to 15.00 hours per month, determined by length of service, with a maximum carry forward ranging from thirty to sixty days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees. It is the policy of the Funding Commission to record the cost of sick leave when paid. Generally, sick leave (earned one day per month with unlimited accumulation) is paid when an employee is absent due to illness, injury, or related family death. Sick leave accumulated is added to an employee's years of service at the time of retirement. There was no liability recorded for sick leave at June 30, 2024. The estimated accumulated amount of unused sick leave at June 30, 2024 and 2023 for the Funding Commission was $137,164 and $131,677, respectively.

Changes in compensated absences for the year ended June 30, 2024 are summarized as follows:

Balance June 30, 2023	Additions	Reductions	Balance June 30, 2024	Amounts Due Within One Year
$ 127,942	$ 107,999	$ 92,990	$ 142,951	$ 85,006

Changes in compensated absences for the year ended June 30, 2023 are summarized as follows:

Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Amounts Due Within One Year
$ 141,648	$ 93,057	$ 106,763	$ 127,942	$ 40,145

7. RETIREMENT PLANS

The Funding Commission is a participant employer of the Kentucky Employees' Retirement System (KERS) for Non-Hazardous Pension Plans. The Board of Trustees of Kentucky Public Pension Authority administer the Plan, under the provisions of Kentucky Revised Statue 61.645.

Plan Description

The Kentucky Employees Retirement System (KERS) is a cost-sharing, multiple-employer defined benefit pension plan. It includes nearly all regular full-time employees working in positions at participating state agencies, as well as eligible local agencies that choose to join the system. The plan offers retirement, disability, and death benefits to its members, with the possibility of extending retirement benefits to beneficiaries under certain conditions.

Cost of Living Adjustment (COLA)

No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.

Benefit Formula: Final Compensation * Benefit Factor * Year of Service = Cash Balance Plan

Tier 1

Participation:	Prior to September 1, 2008
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump sum compensation payments (before and at retirement).
Benefit Factor:	1.97% for 13 months of credit for 1/1/1998 to 1/1/1999. 2.00% for 13 months or more of credit for 1/1/1998 to 1/1/1999.
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.

Tier 2

Participation:	September 1, 2008, through December 31 ,2013
Final Compensation:	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump sum compensation payments (before and at retirement) are not to be included in creditable compensation.
Benefit Factor:	1.10% = 10 years or less 1.30% = Greater than 10 years, but no more than 20 years. 1.50% = Greater than 20 years, but no more than 26 years 1.75% = Greater than 26 years, but no more than 30 years 2.00% = Greater than 30 years (2.00% benefit factor only applies to service earned in excess of 30 years).
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest. Rule of 87: Member must be at least age 57. Age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations
Reduced Retirement Benefit:	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).

Tier 3

Participation:	Participation on or after January 1, 2014
Final Compensation:	No final compensation
Benefit Factor:	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.

Unreduced Retirement Benefit:	Rule of 87: Member must be at least age 57. Age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations
Reduced Retirement Benefit:	No reduced retirement

Contributions

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the Kentucky Retirement System's Board. For the fiscal years ended June 30, 2024 and 2023, plan employees were required to contribute 5 percent of their annual covered salary for retirement benefits. Employees participating in Tiers 2 and 3 were required to contribute an additional 1 percent for the insurance fund.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5 percent of wages to their own account and 1 percent to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

The Funding Commission was contractually required to contribute a normal cost percentage of covered payroll and an actuarially accrued liability contribution amount effective July 1 ,2022.

Normal Contributions

Normal cost contributions are based on a normal cost percentage of employers' reported payroll. The normal contribution percentage for the years ended June 30, 2024 and 2023, was 9.97% of covered payroll, of which 7.82% allocated to the pension fund and 2.15% to the insurance fund.

Actuarially Accrued Liability Contribution

The actuarially accrued liability contribution is a monthly amount determined by the KERS actuary for its own portion of the total unfunded liability over a set period regardless of covered payroll to the nonhazardous KERS pension plan. The contribution rate is actuarially determined as an amount that, when combined with employee contributions during the year, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The Funds' portion of the actuarially accrued liability contribution is based on the Executive's Branch's proportionate share of the actuarially accrued liability contribution of 77.93%, of which 91.11% is allocated to the pension fund and 8.89% to the insurance fund for the years ended June 30, 2024 and 2023.

The Funding Commission's total contributions to the KERS nonhazardous pension plan were $518,888, $68,752 normal cost contribution and $450,136 as the actuarially accrued liability contribution for the pension fund, which is 100% of the required pension contribution for the year ended June 30, 2024. The Funding Commission's total contributions to the KERS nonhazardous pension plan were $584,983, $67,126 normal cost contribution and $517,858 as the actuarially accrued liability contribution for the pension fund, which is 100% of the required pension contribution for the year ended June 30, 2023.

At June 30, 2024, the Funding Commission reported a liability of $7,024,507 for its proportionate share of net pension liability, a decrease of $1,545,799 from the reported liability at June 30, 2023. The net pension liability at June 30, 2024 was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022, rolled forward to 2023 using generally accepted actuarial principles. The Funding Commission's proportion of the net pension liability was based on a projection of the Funding Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2023, the Funding Commission's proportion was 0.057023%, which decreased 0.007574% from its proportion measured as of June 30, 2022.

The Board of Trustees adopted new actuarial assumptions on June 5, 2023, which were used in determining the total pension liability as of June 30, 2023.

For the years ended June 30, 2024 and 2023, the Funding Commission recognized pension expense of $221,343 and $1,178,253, respectively. For the year ended June 30, 2024 deferred outflows and deferred inflows related to the pension from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ 86,848	$ 85
Net difference between projected and actual earnings on investments	7,144	-
Change in assumptions	-	193,018
Changes in proportion and difference between employer contributions and proportionate share of contributions	3,545,876	4,031,674
Contributions subsequent to the measurement date	518,888	-
Total	$ 4,158,756	$ 4,224,777

The $518,888 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized over a period of either five years for investment-related deferrals or the estimated remaining service life for active participants in the pension plan for other deferred items. As of June 30, 2023 plan year, the estimated remaining service life was 1.96 years. Other amounts reported as deferred outflows and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

	Deferred Amounts to be recognized is Fiscal Years Following the Reporting Date
2025	$ (597,644)
2026	(13,045)
2027	31,427
2028	(5,647)
Total	$ (584,909)

Actuarial Assumptions

The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment Rate of Return	5.25%
Inflation Rate	2.30%
Payroll Growth Rate	0%
Salary Growth Rate	3.30% to 15.30%, varies by service.

Mortality Tables for active members was a PUB-2010 General Mortality table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010. Healthy Retired Members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. Disabled Members was a PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

Actuarial assumptions used in the June 30, 2023 valuation was based on the following:

Actuarial Valuation Date	June 30, 2021
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized.

Remaining Amortization Period	30 years, closed period at June 30, 2019. After 2019, gains/losses will be amortized over separate closed 20-year amortization bases.
Date of Experience Study	July 1, 2018, to June 30, 2022

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the table below. The current long-term inflation assumption is 2.50% per annum for both the non-hazardous and hazardous plan.

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Equity:		
Public Equity	32.50%	5.90%
Private Equity	7.00%	11.73%
Fixed Income:		
Core Fixed Income	20.50%	2.45%
Specialty Credit	15.00%	3.65%
Cash	5.00%	1.39%
Inflation Protected:		
Real Estate	10.00%	4.99%
Real Return	10.00%	5.15%
	100.00%	**4.87%**
Long term inflation assumption		**2.50%**
Expected nominal return for portfolio		**7.37%**

Discount Rate

The projection of cash flows used to determine the discount rate of 5.25% assumes that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 30-year amortization period of the unfunded actuarial accrued liability. Future contributions are projected assuming contributions of the actuarially determined contribution are fully met each future year calculated in accordance with the current funding policy. The discount rate does not use a municipal bond rate.

Sensitivity of the Funding Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Funding Commission, calculated using the discount rate of 5.25%, as well as what the Funding Commission's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%):

	1% Decrease (4.25%)	Discount (5.25%)	1% Increase (6.25%)
The Special Fund's proportionate share	$ 8,073,940	$ 7,024,507	$ 6,154,846

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (a matter of public record). The Commonwealth's Comprehensive Annual Financial Report should be referred to for additional disclosures related to KERS. The Kentucky Retirement System also issues a publicly available financial report that includes financial statements and required supplementary information for the KERS, which may be obtained online at www.kyret.ky.gov.

In addition to the above defined benefit pension plan, the Funding Commission's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees Deferred Compensation Authority (KPEDCA) issues a publicly available financial report that includes financial statements and required supplementary information for the KPEDCA. The report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601-8862.

8. POST-EMPLOYMENT HEALTH CARE BENEFITS

All regular full-time employees who work in non-hazardous duty positions of any state department, board, agency, county, city, school board, and any eligible local agencies participate in an Other Post-employment Benefit (OPEB) plan administered by the Kentucky Employees Retirement System (KERS), a cost-sharing multi-employer public employee retirement system. The plan provides health insurance benefits to plan members and to certain beneficiaries of plan members under prescribed circumstances.

Covered Employees

Contribution rates for employers and employees are established by Kentucky Statute KRS 21.427. The traditional plan members do not contribute to the OPEB directly. Instead, assets have been allocated between the pension and the retiree medical liabilities on the basis of accrued liability as of July 1, 2021. This amount has been brought forward from that date based on actual cash flows and prorated allocation of investment returns. The hybrid plan member contributes 1% of his or her salary. Employer contributions are determined by the budget bill.

Benefits

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of active employees and participating organizations are established and may be amended by the Kentucky Retirement System's board. Employees with a participation date after 9/1/2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits.

Benefit Factor

	Months of Service	**Percent of Premium**
Participation prior to July 2003:	Less than 48	0%
	48 – 119 inclusive	25%
	120 – 179 inclusive	50%
	180 - 239 inclusive	75%
	240 or more	100%
Participation between 2003 and August 2008:	Greater than or equal to 120	$10 per month for each year of service without regards to a max dollar adjusted by 1.5% annually
Participation on or after September 2008:	Greater than or equal to 180	$10 per month for each year of service without regards to a max dollar adjusted by 1.5% annually

Cost of Living Members participating after 2008 receive a 1.5% increase annually.

Contributions

The Funding Commission was contractually required to contribute 2.15 percent of covered payroll to the nonhazardous KERS insurance plan for the years ending June 30, 2024 and 2023. The Funding Commission's total statutorily required contributions to the KERS nonhazardous insurance plan for the year ended June 30, 2024 and 2023 were $62,861 and $68,972, respectively. The Funding Commission contributed $62,861, $18,902 normal cost contribution and $43,959 as the actuarially accrued liability contribution, for the year ended June 30, 2024, which is 100% of the statutorily required contribution.

Note 7 provides a detailed breakdown of the Funding Commission contractually required contributions to the normal cost percentage of covered payroll and an actuarially accrued liability contribution amount for fiscal year 2023.

At June 30, 2024, the Funding Commission reported a liability of $428,379 or its proportionate share of the collective net OPEB liability, a decrease of $952,929 from the reported liability at June 30, 2023. The collective net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation performed as of June 30, 2022, rolled forward to 2023 using generally accepted actuarial principles. The Funding Commission's proportion of the net OPEB liability was based on a projection of the Funding Commission's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities. At June 30, 2023, the Funding Commission's proportion was 0.0545990%, which decreased 0.0078440% from its proportion measured as of June 30, 2022.

The Board of Trustees adopted new actuarial assumptions on June 5, 2023, which were used in determining the total pension liability as of June 30, 2023.

For the year ended June 30, 2024, the Funding Commission recognized OPEB income of $134,492. For the year ended June 30, 2023, the Funding Commission recognized OPEB expense of $150,611. Deferred outflows and deferred inflows related to OPEB from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ -	$ 582,562
Net difference between projected and actual earnings on investments	78	-
Change of assumption	41,916	47,289
Changes in proportion and difference between employer contributions and proportionate share of contributions	912,543	982,079
Contributions subsequent to the measurement date	77,540	-
Total	$ 1,032,077	$ 1,611,930

Of the total amount reported as deferred outflows of resources related to OPEB, $62,861 resulting from the Funding Commission's statutorily required contributions and $14,679 resulting from the implicit subsidy subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability during the year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized over a period of either five years for investment-related deferrals or the estimated remaining service life for active participants in the pension plan for other deferred items. As of June

30, 2023, plan year, the estimated remaining service life was 3.40 years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Funding Commission's OPEB expense as follows:

Deferred Amounts to be recognized is Fiscal Years Following the Reporting Date	
2025	$ (269,653)
2026	(287,248)
2027	(95,557)
2028	(4,935)
Total	$ (657,393)

Actuarial Assumptions:

The total OPEB liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment Rate of Return	6.25%
Inflation Rate	2.3%
Payroll Growth Rate	0%
Salary Growth Rate	3.30% to 15.30%, varies by service
Healthcare Trend Rates:	
Pre-65	Initial trend starting at 6.40% on 1/1/2022 and gradually decreasing to a trend rate of 4.05% over a period of 14 years.
Post-65	Initial trend starting at 6.30% at 1/1/2023 and gradually decreasing to a trend rate of 4.05% over a period of 13 years.

Mortality Tables for active members was a PUB-2010 General Mortality table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010. Healthy Retired Members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. Disabled Members was a PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

Actuarial assumptions used in the June 30, 2023 valuation was based on the following:

Actuarial Valuation Date	June 30, 2021
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay

Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized.
Remaining Amortization Period	30 years, closed period at June 30, 2019. After 2019, gains/losses will be amortized over separate closed 20-year amortization bases.
Date of Experience Study	July 1, 2018, to June 30, 2022

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the table below. The current long-term inflation assumption is 2.50% per annum for both the non-hazardous and hazardous plan.

Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Equity:		
Public Equity	43.50%	5.90%
Private Equity	10.00%	11.73%
Fixed Income:		
Core Fixed Income	10.00%	2.45%
Specialty Credit	15.00%	3.65%
Cash	1.50%	1.39%
Inflation Protected:		
Real Estate	10.00%	4.99%
Real Return	10.00%	5.15%
	100.00%	5.56%
Long term inflation assumption		2.50%
Expected nominal return for portfolio		8.06%

Discount Rate

On June 5, 2023, the Board of Trustees adopted a new actuarial assumption. The discount rate used to calculate total OPEB liability increased from 5.72% to 5.94%. The discount rate determination used an expected rate of return of 6.50% and a municipal bond rate of 3.86%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2023. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the KERS's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the KERS's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Commonwealth's ACFR.

Sensitivity of the Funding Commission's proportionate share of the collective net OPEB liability to changes in the discount rate.

The following presents the Funding Commission's proportionate share of the collective net OPEB liability, as well as what the Funding Commission's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.94 percent) or 1-percentage-point higher (6.94 percent) than the current discount rate:

	1% Decrease (4.94%)	Discount (5.94%)	1% Increase (6.94%)
The Special Fund's proportionate share	576,134	$ 428,379	$ 304,130

Sensitivity of the Funding Commission's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates.

The following presents the Funding Commission's proportionate share of the collective net OPEB liability, as well as what the Funding Commission's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates (Pre-65 - Initial trend starting at 6.40 percent at January 1, 2022, and gradually decreasing to 4.05 percent over a period of 14 years and Post-65 - Initial trend starting at 6.30 percent at January 1, 2023, and gradually decreasing to 4.05 percent over a period of 13 years):

	Healthcare Cost Trend Rates		
	1% Decrease	Current	1% Increase
The Special Fund's proportionate share	$ 314,031	$ 428,379	$ 566,801

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth's Comprehensive Annual Financial Report should be referred to for additional disclosures related to KERS. See the end of Note 7 for additional information and resources available regarding KERS.

9. RISK MANAGEMENT

The Funding Commission is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; and errors and omissions. The Funding Commission utilizes the Commonwealth's Risk Management Fund to cover exposure to these potential losses. The Commonwealth's Comprehensive Annual Financial Report should be referred to for additional disclosure related to the Risk Management Fund. The Funding Commission also purchases a commercial insurance policy for Directors and Officers insurance.

10. RELATED PARTY TRANSACTIONS

The Funding Commission received services from the Commonwealth Office for Technology (COT) which provides technical support for State government agencies in the application of information technology including major information resource functions such as data center operations, data and voice communications, data administration, hardware selection and installation, printing, and related end-user and customer support services. During 2024 and 2023, the Funding Commission paid $53,857,and $54,759, respectively, to COT for services provided.

The Funding Commission received assessments from the Commonwealth's Personnel Cabinet and Transportation Cabinet. During 2024, the Funding Commission received $1,041,959 and $144,891 from the Commonwealth's Personnel Cabinet and Transportation Cabinet, respectively, in assessments on workers compensation premiums. During 2023, the Funding Commission received $1,053,423 and $148,126 from the Commonwealth's Personnel Cabinet and Transportation Cabinet, respectively, in assessments on workers compensation premiums. At June 30, 2024 and 2023, assessments receivables from the Transportation Cabinet was $49,980 and $47,230, respectively.

In October 2019, the Funding Commission purchased a corporate bond issued by State Street Corporation for $1,505,000. State Street Corporation is the custodian of the Funding Commission's investments. The fair value of this bond was $1,318,985 and $1,281,671 at June 30, 2024 and 2023, respectively.

11. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Funding Commission has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If asset or liability has a specified (contractual) term, the level 2 inputs must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2024.

- *Fixed Income Investments*: Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Equities*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *State Pool*: Valued at the proportionate interest in the securities held in the respective pools at the closing price reported on the active marked on which the individual securities are traded.

The following table sets forth by level within the hierarchy, the Special Fund's assets and liabilities measured at fair value on a recurring basis as of June 30, 2024 as follows:

	Assets at Fair Value as of June 30, 2024			
	Level 1	*Level 2*	*Level 3*	*Total*
Investments:				
Corporate bonds	$ -0-	$ 144,508,120	$ -0-	$ 144,508,120
Emerging markets corporate bonds	-0-	1,837,196	-0-	1,837,196
U.S. treasury notes and bonds	-0-	52,226,640	-0-	52,226,640
Taxable municipals	-0-	34,957,988	-0-	34,957,988
U.S. agency mortgage-backed securities	-0-	24,125,831	-0-	24,125,831
Asset backed securities	-0-	16,956,959	-0-	16,956,959
Collateralized mortgage obligations	-0-	19,574,168	-0-	19,574,168
Collateralized mortgage-backed securities	-0-	7,075,399	-0-	7,075,399
Local government	-0-	241,625	-0-	241,625
Equities	2,186,400	-0-	-0-	2,186,400
Total investments at fair value	$ 2,186,400	$ 301,503,926	$ -0-	$ 303,690,326

The following table sets forth by level within the hierarchy, the Self-Insurance Fund's assets and liabilities measured at fair value on a recurring basis as of June 30, 2024 as follows:

	Assets at Fair Value as of June 30, 2024			
	Level 1	*Level 2*	*Level 3*	*Total*
Investments:				
Corporate bonds	$ -0-	$ 4,920,783	$ -0-	$ 4,920,783
U.S. treasury notes and bonds	-0-	2,453,581	-0-	2,453,581
Taxable municipals	-0-	476,262	-0-	476,262
U.S. agency mortgage-backed securities	-0-	1,624,996	-0-	1,624,996
Asset backed securities	-0-	1,519,184	-0-	1,519,184
Collateralized mortgage-backed securities	-0-	225,576	-0-	225,576
Investment in state pool	393,858	-0-	-0-	393,858
Total investments at fair value	$ 393,858	$ 11,220,382	$ -0-	$ 11,614,240

The following table sets forth by level within the hierarchy, the Special Fund's assets and liabilities measured at fair value on a recurring basis as of June 30, 2023 as follows:

	Assets at Fair Value as of June 30, 2023			
	Level 1	*Level 2*	*Level 3*	*Total*
Investments:				
Corporate bonds	$ -0-	$ 140,568,018	$ -0-	$ 140,568,018
Emerging markets corporate bonds	-0-	1,339,313	-0-	1,339,313
U.S. treasury notes and bonds	-0-	53,207,907	-0-	53,207,907
Taxable municipals	-0-	34,997,999	-0-	34,997,999
U.S. agency mortgage-backed securities	-0-	19,573,131	-0-	19,573,131
Asset backed securities	-0-	16,372,894	-0-	16,372,894
Collateralized mortgage obligations	-0-	14,048,250	-0-	14,048,250
Collateralized mortgage-backed securities	-0-	6,805,166	-0-	6,805,166
Local government	-0-	258,564	-0-	258,564
Equities	2,274,000	-0-	-0-	2,274,000
Total investments at fair value	$ 2,274,000	$ 287,171,242	$ -0-	$ 289,445,242

The following table sets forth by level within the hierarchy, the Self-Insurance Fund's assets and liabilities measured at fair value on a recurring basis as of June 30, 2023 as follows:

	Assets at Fair Value as of June 30, 2023			
	Level 1	*Level 2*	*Level 3*	*Total*
Investments:				
Corporate bonds	$ -0-	$ 4,528,881	$ -0-	$ 4,528,881
U.S. treasury notes and bonds	-0-	3,152,844	-0-	3,152,844
Taxable municipals	-0-	477,624	-0-	477,624
U.S. agency mortgage-backed securities	-0-	1,804,887	-0-	1,804,887
Asset backed securities	-0-	494,432	-0-	494,432
Collateralized mortgage-backed securities	-0-	221,969	-0-	221,969
Investment in state pool	669,957	-0-	-0-	669,957
Total investments at fair value	$ 669,957	$ 10,680,637	$ -0-	$ 11,350,594

The Funding Commission's policy is to recognize transfers between levels as of the actual date of the event or changes in circumstances. There were no transfers between levels during the years ended June 30, 2024 and 2023.

The Funding Commission holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in value, it is at least reasonably possible that changes in various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

12. LEGAL SETTLEMENT

In April 2024, the Self Insurance Fund ("SIF") received a legal settlement of $2,931,000 from New York Liquidation Bureau. The SIF transferred the settlement to the Kentucky Coal Employers' Self-Insurance Guaranty Fund ("KCESIGF") so that the split between claims administration might be calculated. The SIF is responsible for claims that occurred before March 1, 1997; the KCESIGF is responsible for claims that occurred on or after March 1, 1997. In June 2024, $1,229,005 was returned to the SIF, which distributed the funds to the related foreclosed entity, called a 920 company, to pay its on-going workers compensation claims. As such, the SIF has met its obligation to distribute the legal settlement as directed by the Legal Counsel of the Department of Workers Claims as of June 30, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Nine Fiscal Years

Reporting period	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Measurement period	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Proportion of the net pension liability (asset)	0.057023%	0.064597%	0.058483%	0.051901%	0.054045%	0.047471%	0.049631%	0.051054%	0.058366%
Proportionate share of the net pension liability	$ 7,024,507	$ 8,570,305	$ 7,788,178	$ 7,351,597	$ 7,632,777	$ 6,457,848	$ 6,644,765	$ 5,819,930	$ 5,855,212
Covered payroll	$ 857,796	$ 840,978	$ 761,562	$ 739,993	$ 790,512	$ 725,032	$ 767,371	$ 825,402	$ 946,984
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	818.90%	1019.09%	1022.66%	993.47%	965.55%	890.70%	865.91%	705.10%	618.30%
Plan fiduciary net position as a percentage of the total pension liability	22.32%	18.51%	18.48%	14.01%	13.66%	12.84%	13.32%	14.80%	18.83%

Note:

This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented.
The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

SCHEDULE OF PENSION CONTRIBUTIONS
Last Ten Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$ 518,888	$ 584,985	$ 625,436	$ 558,073	$ 525,617	$ 561,501	$ 297,698	$ 308,790	$ 254,554	$ 292,050
Contribution in relation to the statutorily required contribution	518,888	584,985	625,436	558,073	525,617	561,501	297,698	308,790	254,554	292,050
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Covered payroll	$ 879,172	$ 857,796	$ 840,978	$ 761,562	$ 739,993	$ 790,512	$ 725,032	$ 767,371	$ 825,402	$ 946,984
Contribution as a percentage of covered payroll	59.02%	68.20%	74.37%	73.28%	71.03%	71.03%	41.06%	40.24%	30.84%	30.84%

Note:
This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See report of independent auditors. See notes to required supplementary information.

KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Seven Fiscal Years

Reporting period	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Measurement period	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Proportion of the net pension liability (asset)	0.054599%	0.062443%	0.051901%	0.054045%	0.047431%	0.049631%	0.051054%
Proportionate share of the net pension liability	$ 428,379	$ 1,381,308	$ 1,325,725	$ 1,201,364	$ 1,124,547	$ 1,258,623	$ 1,065,238
Covered payroll	$ 857,796	$ 840,978	$ 761,562	$ 739,993	$ 790,512	$ 725,032	$ 767,371
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	49.94%	164.25%	174.08%	162.35%	142.26%	173.60%	138.82%
Plan fiduciary net position as a percentage of the total pension liability	22.32%	38.15%	38.38%	29.47%	30.92%	27.32%	24.37%

Note:
This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

See report of independent auditors. See notes to required supplementary information.

SCHEDULE OF OPEB CONTRIBUTIONS
Last Eight Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017
Statutorily required contribution	$ 62,861	$ 68,972	$ 80,751	$ 84,914	$ 91,759	$ 98,024	$ 60,975	$ 64,075
Contribution in relation to the statutorily required contribution	62,861	68,972	80,751	84,914	91,759	98,024	60,975	64,075
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Covered payroll	$ 879,172	$ 857,796	$ 840,978	$ 761,562	$ 739,993	$ 790,512	$ 725,032	$ 767,371
Contribution as a percentage of covered payroll	7.15%	8.04%	9.60%	11.15%	12.40%	12.40%	8.41%	8.35%

Note:
This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

1. CONTRIBUTIONS

Contractually required employer contribution reported on the Schedule of Pension Contributions exclude the portion of contributions paid to KERS but allocated to the insurance fund of the KERS. The insurance contributions are reported on the Schedule of Other Post-employment Benefits (OPEB) OPEB Contributions.

2. PAYROLL

The Funding Commission's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Proportionate Share of the Net OPEB Liability is one year prior to the Health Department's fiscal year payroll as reported on the Schedule of Contributions for Pensions and OPEB.

3. CHANGES OF ASSUMPTIONS – PENSION

Measurement period at June 30, 2023

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for pension.

Measurement period at June 30, 2022

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension.

Measurement period at June 30, 2021

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2029, for pension as noted below:

- Amortization period changed from a 26-year closed period to a 30-year closed period at June 30, 2019. Additionally gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases.
- Retiree mortality changed from RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (setback 1 year for females) to a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

Measurement period at June 30, 2020

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2017, for pension as noted below:

- Projected Salary increase change 3.55% - 15.55% to 3.30% - 15.30%, varied by service.

Measurement period at June 30, 2019

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2017, for pension as noted below:

- Asset Valuation Method changes from a 5-year smoothed market to a 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
- Amortization period decreased from a 27-year to a 26-year period.
- Rate of return change from 6.75% to 5.25%.
- Projected salary increases change from 4.00% average to 3.55% - 15.55%, varied by service.
- Inflation rate change from 3.25% to 2.30%.

Measurement period at June 30, 2018

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2016, for pension as noted below:

- The payroll growth assumed changed from 2.00% to 0.00%.
- Amortization period decreased from a 28-year to a 27-year period.
- Rate of return change from 7.50 % to 6.75 %.

Measurement period at June 30, 2017

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2015, for pension as noted below:

- The payroll growth assumed had been 0.00%, however in the current year is increased to 2.00%.
- Amortization period had been decreasing by 1 year, however in the current year it increased 1 year to a 28-year closed period.
- Rate of return change from 6.75 % to 7.50%.

Measurement period at June 30, 2016

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2015, for pension as noted below:

- Amortization period decreased from a 28-year to a 27-year period.
- Rate of return change from 7.50% to 6.75%.

Measurement period at June 30, 2015

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2015, for Pension as noted below:

- Amortization period decreased from a 29-year to a 28-year period.
- Rate of return change from 7.75% to 7.50%.
- Projected salary increase change from 4.50% to 4.00%.
- Inflation rate change from 3.50% to 3.25%.

Valuation at June 30, 2014

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014, for pension.

4. CHANGES OF ASSUMPTIONS – OTHER POST-EMPLOYMENT BENEFITS NONHAZARDOUS

Measurement period at June 30, 2023

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2021, for pension as noted below:

- Pre 65 healthcare trend rates changed from an initial trend starting at 6.40% at January 1, 2022, gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years to an initial trend starting at 6.30% at January 1, 2023, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Measurement period at June 30, 2022

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2020, for pension as noted below:

- Pre 65 healthcare trend rates changed from an initial trend starting at 6.25% at January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years to an initial trend starting at 6.40% at January 1, 2022, gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
- Post 65 healthcare trend rates changed from an initial trend starting at 5.50% at January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years to an initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Measurement period at June 30, 2021

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2019, for pension as noted below:

- Amortization period changed from a 26-year closed period to a 30-year closed period at June 30, 2019. Additionally gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases.
- Projected salary increases change from 3.55% - 15.55% to 3.30% - 15.30%, varied by service.
- Retiree mortality changed from RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (setback 1 year for females) to a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
- Pre 65 healthcare trend rates changed from an initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years to an initial trend starting at 6.25% at January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

- Post 65 healthcare trend rates changed from an initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years to an initial trend starting at 5.50% at January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

Measurement period at June 30, 2020

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017, for pension.

Measurement period at June 30, 2019

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2017, for pension as noted below:

- Payroll growth rate assumed changed from 4.00% to 0.00%
- Amortization period decreased from a 27-year, closed to a 26-year, closed period.
- Rate of return change from 7.50% to 6.25%.
- Projected salary increases change from 4.00% average to 3.55% - 15.55%, varied by service.
- Inflation rate change from 3.25% to 2.30%.
- Pre 65 healthcare trend rates changed from an initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years to an initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
- Post 65 healthcare trend rates changed from an initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years to an initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

Measurement period at June 30, 2018

The following changes in assumptions were made by the Kentucky Legislature reflected in the valuation performed as of June 30, 2016, for pension as noted below:

- Amortization period decreased from a 28-year, closed to a 27-year period, closed.

Measurement period at June 30, 2017

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015, for pension.

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Kentucky Workers' Compensation Funding Commission
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 the Kentucky Workers' Compensation Funding Commission (the Funding Commission), which comprise the statements of net position and fiduciary net position, statements of revenues, expenses, and changes in net position, and fiduciary net position, and statements of cash flows as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Funding Commission's basic financial statements, and have issued our report thereon dated September 25, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Funding Commission's internal control over financial reporting (internal control) as a basis for designing 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 Funding Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Funding Commission'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 Funding Commission'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 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funding Commission'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 financial statements. 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*.

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 Funding Commission'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 Funding Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
September 25, 2024

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2024

Summary of Auditor's Results

We have issued an unmodified opinion, dated September 25, 2024, on the financial statements of the Funding Commission as of and for the year ended June 30, 2024.

Our audit disclosed no instances of noncompliance which are material to the Funding Commission's financial statements.

Our audit disclosed no findings that are required to be reported in accordance with *Government Auditing Standards*.

Findings Related to the Financial Statements

None noted.

SCHEDULE OF PRIOR YEAR FINDINGS AND THEIR RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023

There were no findings reported for the year ended June 30, 2023.