

We're here, when it matters most.



Annual Report 2017
Formerly KESA



We're here, when it matters most.

The close of 2017 brought dramatic changes to our company. Most importantly, after 38 years of providing workers' compensation insurance for the employers in the great Commonwealth of Kentucky, we bid farewell to KESA, The Kentucky Workers' Compensation Fund. On January 1, 2018, we reorganized as ClearPath Mutual Insurance Company, a non-assessable mutual company owned by its policyholders. Reorganizing as a mutual allowed us to accomplish several strategic objectives, such as eliminating joint and several liability and being able to eventually write coverage outside the boundaries of Kentucky. We are excited about our new company and want you to join us on our path to success.

Investing in Technology

Another significant change that occurred at the beginning of 2018 was our conversion to a new software system. ClearPath Mutual is dedicated to investing in technological advances as part of our long-term growth strategy. Our new software package moved us from an Oracle-based system to a browser-based system. The new software will ultimately provide us with a more integrated workflow for policy administration, claims administration, and billing and will position us well for expanding into other states. As anyone who has been through a software conversion can attest, it pretty much ranks on par with root canal surgery. Nevertheless, we have persevered and are seeing the light at the end of a long tunnel. We appreciate our users' patience and understanding through this change.

Change in Reporting

Other changes that have taken place as we transitioned from KESA to ClearPath Mutual have been primarily internal. As a group self-insured fund, we filed our financials according to Generally Accepted



Accounting Principles (GAAP), which is how you will see our financials reported on the following pages for the year ended 2017. Now as a mutual insurance company, we are required to file according to Statutory Accounting Principles (SAP). We also now report our data to the National Council on Compensation Insurance (NCCI). NCCI gathers data, analyzes industry trends, and provides insurance rate and loss cost recommendations. NCCI's primary mission is to foster a healthy workers' compensation system and we are glad to partner with them.

Financial Snapshot

To provide a snapshot of the audited financials represented on the following pages, KESA finished 2017 with our earned premiums reaching \$58,806,482. Our cash and invested assets grew to \$223,677,717, up from \$215,214,885 a year ago, and our members' equity totaled \$71,418,136, which is a notable increase from last year's \$61,243,200. Our insured payrolls reached \$6,036,376,720 and our policyholder count grew to 7,289 from 7,225 last year. We know you count on us to deliver excellent financial results every year, and 2017 was certainly a financial success.

We're here, when it matters most.

Finally, our theme, "We're here, when it matters most" communicates our unwavering commitment to being your workers' comp provider now and long into the future. Although this has been an active, change-filled year, we are still the same great company you have come to know. We have the same great, customer-focused employees, we're in the same office, we have the same address, and the same phone number. So, despite all the changes, please remember...We're here, when it matters most.





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ClearPath Mutual Belief Statements

We believe in making decisions based on integrity not profitability.

We believe an injured employee deserves respect and we show respect through prompt and courteous service.

We believe it is our responsibility, along with our insureds and agents, to keep the workforce of Kentucky at work.

We believe that there is not now, nor will there be in the future, a better, more valuable, or more conscientious workers' compensation provider than ClearPath Mutual.

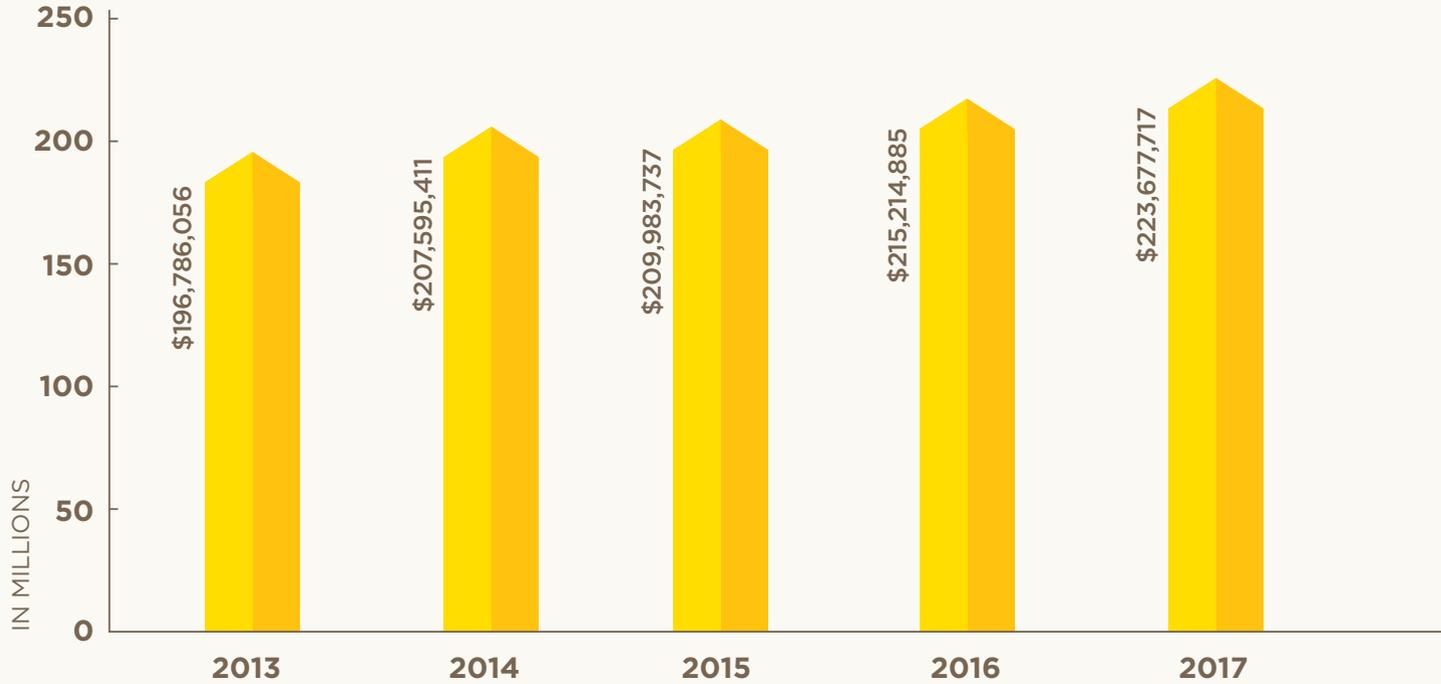
Balance Sheets

Years Ended December 31, 2017 and 2016

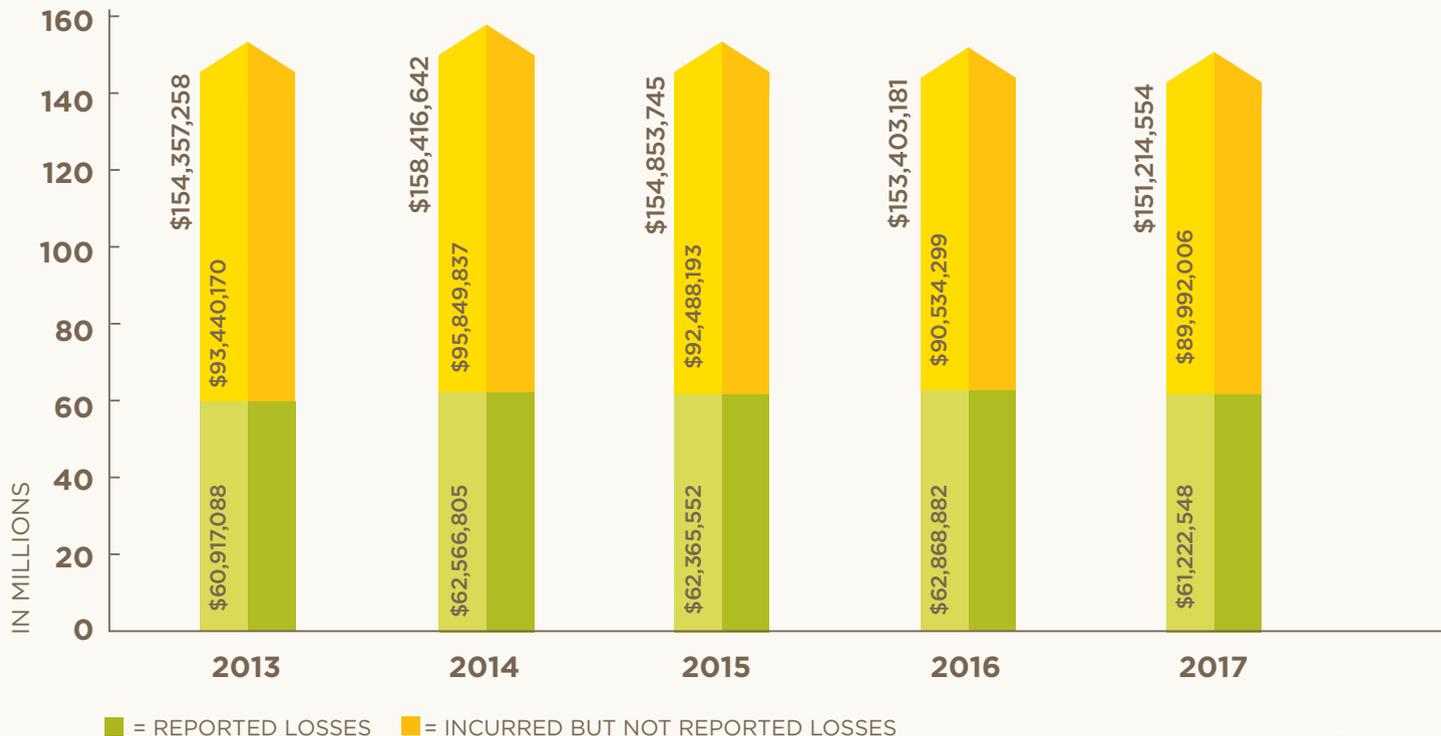
	2017	2016
Assets		
Bonds	\$181,724,406	\$161,488,722
Equities	14,586,881	35,811,312
Cash and short-term investments	27,366,430	17,914,851
Deferred policy acquisition costs	3,256,754	3,175,916
Accrued interest and dividends	795,603	694,300
Agents' balances or uncollected premiums	17,602,717	17,632,792
Reinsurance recoverable on paid losses	92,523	303,524
Reinsurance recoverable on loss and loss adjustment expenses	7,150,034	8,307,449
Current federal income taxes recoverable	-	754,414
Furniture and equipment, net	966,894	751,221
Other assets	1,356,324	1,230,915
Total Assets	\$254,898,566	\$248,065,416
Liabilities and Members' Equity		
Case basis loss and loss adjustment expense reserves	\$61,222,548	\$62,868,882
Incurred but not reported loss and loss adjustment expense reserves	89,992,006	90,534,299
Loss and loss adjustment expense reserves	151,214,554	153,403,181
Unearned premiums	22,917,106	23,123,300
Advance premiums	2,740,335	2,853,286
Commissions payable and other similar charges	1,238,783	1,665,435
Accounts payable and accrued expenses	1,657,797	1,895,814
Special fund tax payable	1,607,570	1,421,262
Current federal income taxes payable	1,254,950	-
Net deferred tax liability	526,966	1,773,849
Ceded premiums payable	322,369	686,089
Total Liabilities	183,480,430	186,822,216
Members' Equity		
Retained earnings	68,460,993	56,778,373
Accumulated other comprehensive income, net of tax	2,957,143	4,464,827
Total Members' Equity	71,418,136	61,243,200
Total Liabilities and Members' Equity	\$254,898,566	\$248,065,416

Johnson Lambert LLP performed an independent audit of the company's 2017 financial statements. A complete copy of the audited statements with all explanatory notes and the Independent Auditors' Report is available upon request.

CASH & INVESTED ASSETS



LOSS & LOSS EXPENSE RESERVES



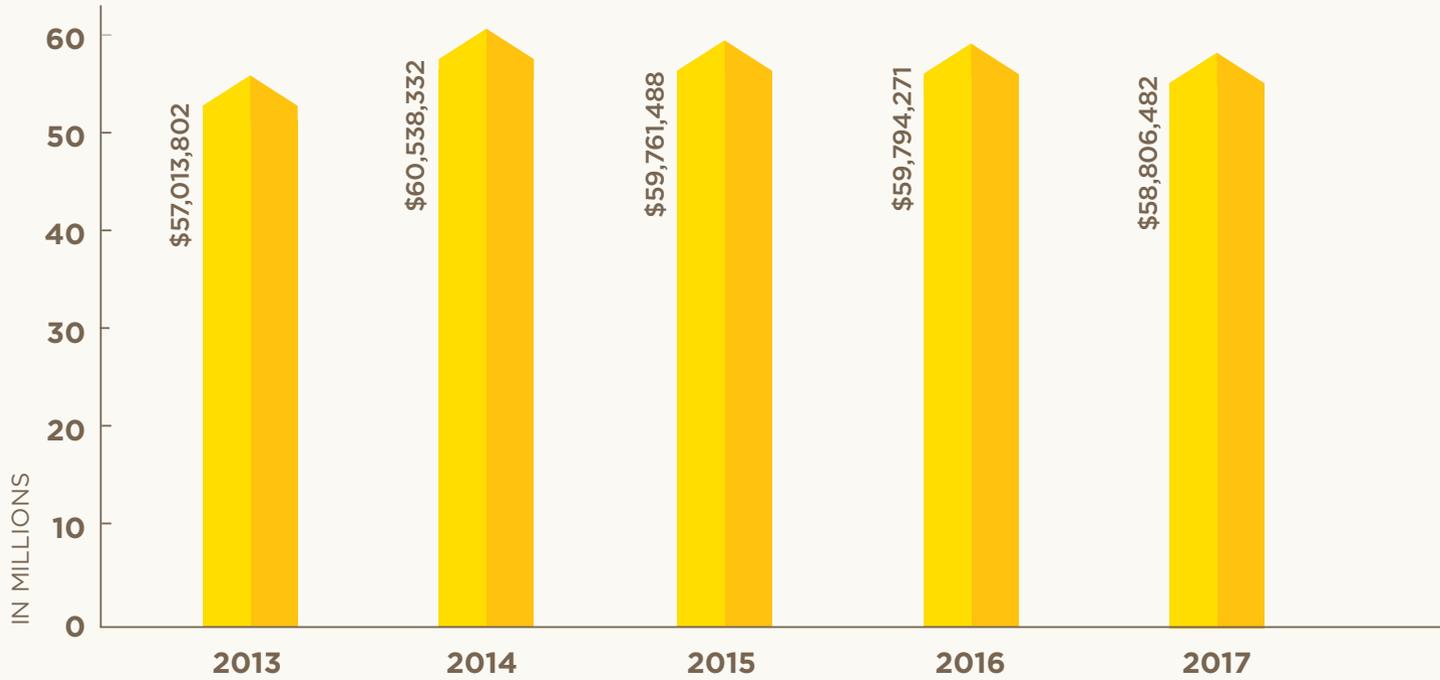
Statements of Income

Years Ended December 31, 2017 and 2016

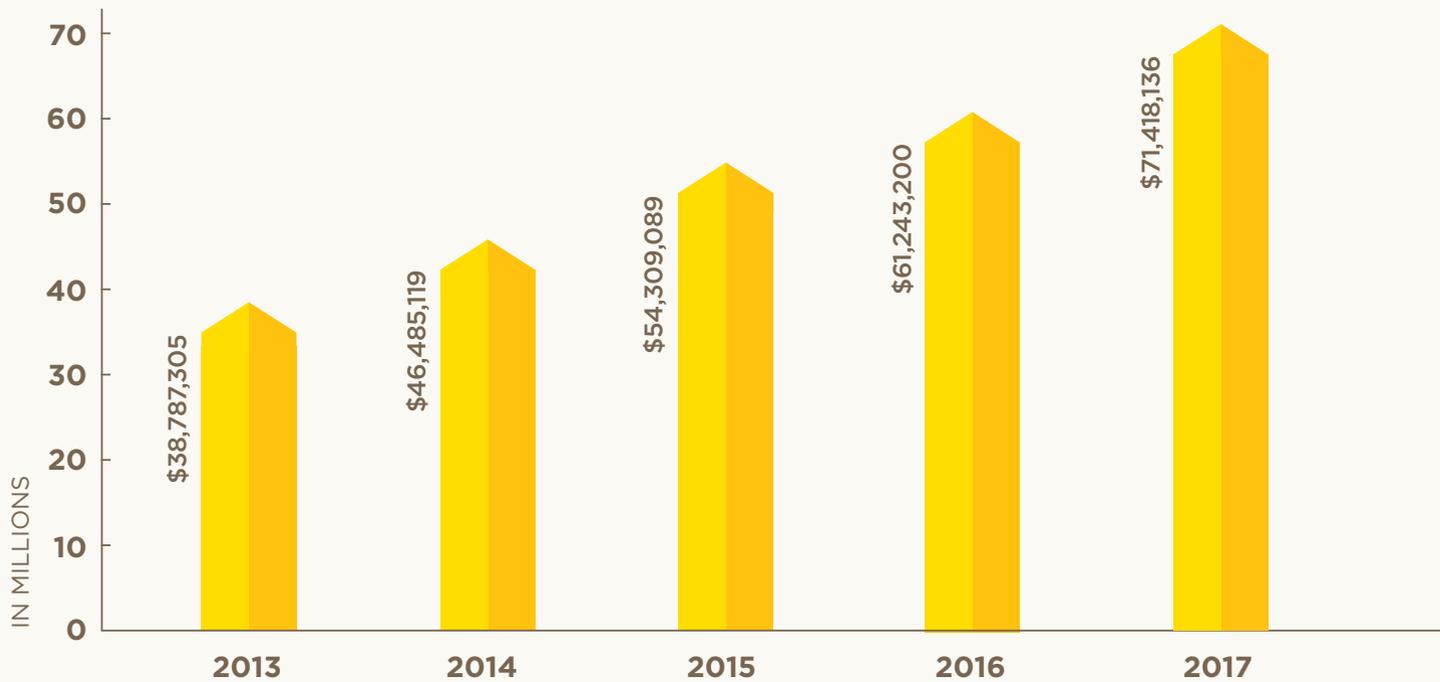
	2017	2016
Revenues		
Direct premiums earned	\$58,806,482	\$59,794,271
Ceded premiums earned	(5,207,988)	(5,407,913)
Net investment income earned	4,600,678	4,551,647
Net realized capital gains	9,435,190	1,480,571
	<hr/>	<hr/>
Total revenues	67,634,362	60,418,576
Expenses		
Loss and loss adjustment expenses incurred, net	35,781,054	37,143,647
Commissions	6,951,197	7,110,054
Other underwriting expenses incurred	7,310,891	6,672,244
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Total expenses	50,043,142	50,925,945
Income before income tax expense	17,591,220	9,492,631
Income tax expense - Current	5,961,641	3,085,206
Income tax (benefit) expense - Deferred	(107,026)	70,714
Deferred - legislative rate change	(128,780)	-
Total income tax expense	5,725,835	3,155,920
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Net income	11,865,385	6,336,711
Other Comprehensive Income:		
Unrealized holding gains on available-for-sale securities, net of income tax (expense) of (\$2,196,887) and (\$811,146)	4,264,545	1,574,577
Less reclassification adjustment for realized gains included in net income, net of income tax expense of \$3,207,965 and \$503,394	(6,227,225)	(977,177)
Other comprehensive (loss) income, net of tax	(1,962,680)	597,400
	<hr/>	<hr/>
Total Comprehensive Income	\$9,902,705	\$6,934,111

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EARNED PREMIUMS



MEMBERS' EQUITY



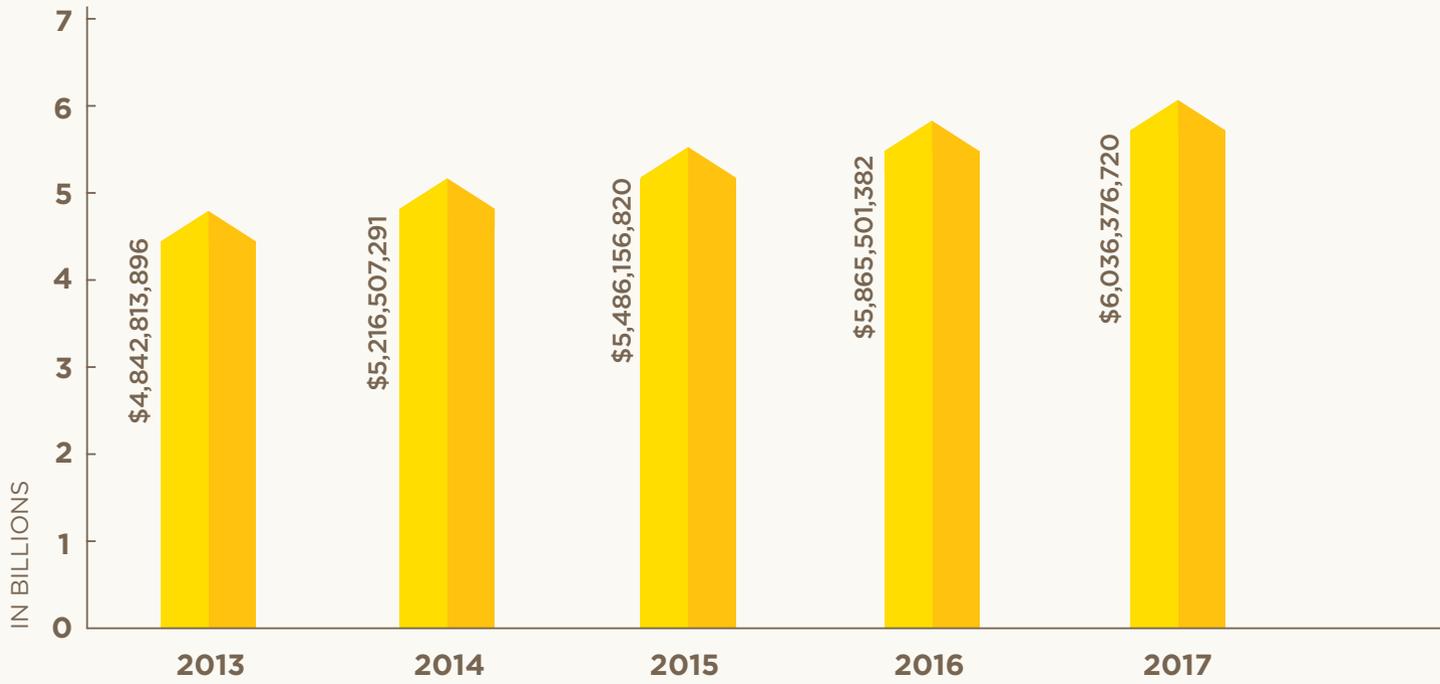
Statements of Cash Flows

Years Ended December 31, 2017 and 2016

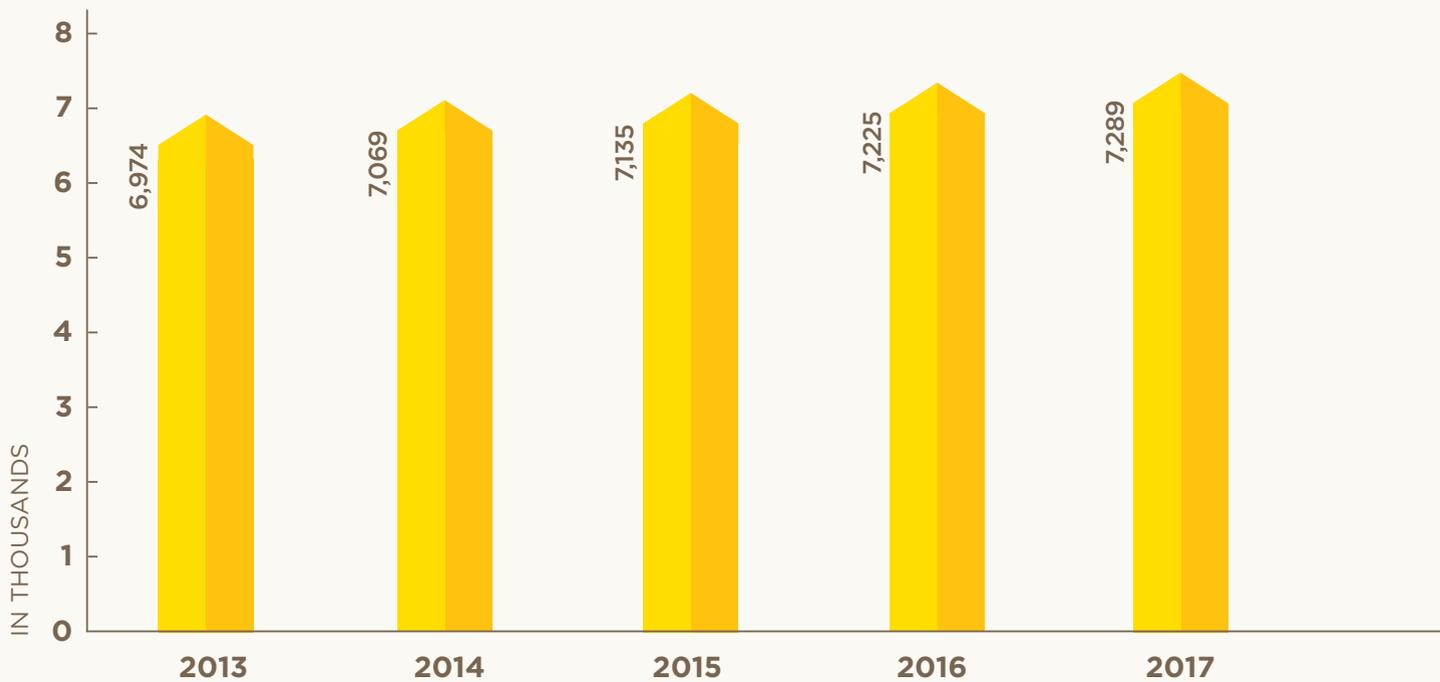
	2017	2016
Cash from operating activities		
Net income	\$11,865,385	\$6,336,711
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	285,344	335,033
Net realized capital gains	(9,435,190)	(1,480,571)
Other income - Association dissolution	272,231	-
Amortization of premiums and discounts, net	72,468	116,104
Deferred federal income taxes	(235,806)	70,714
Increase (decrease) in cash due to changes in		
Deferred policy acquisition costs	(80,838)	(130,511)
Prepaid reinsurance premiums	-	922,849
Current federal income taxes recoverable	2,009,364	(1,608,636)
Accrued interest and dividends	(101,303)	24,558
Agents' balances or uncollected premiums	30,075	(212,204)
Reinsurance recoverable on paid losses	211,001	(201,348)
Reinsurance recoverable on loss and loss adjustment expenses	1,157,415	578,922
Other assets	(125,409)	(547,210)
Loss and loss adjustment expense reserves	(2,188,627)	(1,450,564)
Unearned premiums	(206,194)	543,768
Advance premiums	(112,951)	(83,852)
Commissions payable and other similar charges	(426,652)	123,812
Accounts payable and accrued expenses	(238,017)	541,973
Ceded premiums payable	(363,720)	(403,680)
Special fund tax payable	186,308	(230,211)
Net cash from operating activities	\$2,574,884	\$3,245,657
Cash from investing activities		
Purchases of investments	\$(62,987,752)	\$(49,127,548)
Proceeds from sales and maturities of investments	70,369,489	38,566,962
Purchase of furniture and equipment	(505,042)	(284,226)
Net cash from investing activities	6,876,695	(10,844,812)
Net change in cash and short-term investments	9,451,579	(7,599,155)
Cash and short-term investments, beginning of year	17,914,851	25,514,006
Cash and short-term investments, end of year	\$27,366,430	\$17,914,851
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	\$3,980,000	\$4,665,000

Johnson Lambert LLP performed an independent audit of the company's 2017 financial statements. A complete copy of the audited statements with all explanatory notes and the Independent Auditors' Report is available upon request.

INSURED PAYROLLS



MEMBER COUNT





About ClearPath Mutual

ClearPath Mutual Insurance Company was formed on January 1, 2018 and is domiciled in Louisville, Kentucky. The company is a result of its reorganization from KESA, The Kentucky Workers' Compensation Fund, which was a self-insured workers' compensation fund. Reorganizing as ClearPath Mutual allowed the company to accomplish several strategic objectives, such as eliminating joint and several liability and being able to eventually write coverage outside the boundaries of Kentucky, which in turn provides better service to its agents and policyholders.

ClearPath Mutual has approximately 7,300 policyholders and nearly \$60 million in premiums, making it one of the largest and most financially stable providers of workers' compensation in Kentucky. Its policyholders pay a premium based on their exposures, classification codes, payroll, and experience modification. Premiums are then used to pay claims and administrative expenses, such as loss prevention services and legal, actuarial, and management costs.

ClearPath Mutual is governed by a member-elected Board of Directors, which closely monitors the company's activities. The company is regulated by the Kentucky Department of Insurance, which performs periodic comprehensive examinations.

ClearPath Mutual's Board of Directors describes the company's mission and purpose as providing the best value for its policyholders through conservative, profitable growth; financial security; enhanced safety and risk management services; and exceptional customer service. The transition from a self-insured fund to multi-state and possibly multi-line mutual company supports the company's strategic mission for growth and expansion.

ClearPath Mutual Management Team

Gregory L. Buie
Chief Executive Officer

Page Barrow, AU
Underwriting Manager

Kitty L. Baumgart
Chief Financial Officer

Linda K. Davis
Human Resources/Office Manager

Melinda Ellingsworth
Chief Marketing Officer

Kevin Fallahay
Director of Claims

Mike Kleier
Loss Prevention Manager

Rubyanne O'Bryan
Systems Administrator

2017-2018 ClearPath Mutual Board of Directors

Sean M. Garber

Jerry G. Hale

Clyde D. Lang

Jane Broadwater Long

Louie Seger

Bill Shadburne

Tony Stottmann

Advisors and Consultants

Actuary
Pinnacle Actuarial Resources, Inc.
Atlanta, GA

Auditor
Johnson Lambert LLP
Raleigh, NC

Legal Counsel
Frost Brown Todd LLC
Louisville, KY

Investment Consultant
Diastole Wealth Management
Cincinnati, OH





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