

**ARTICLES OF ASSOCIATION AND BYLAWS
OF THE
KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION**

ARTICLE I. NATURE AND PURPOSE

The Kentucky League of Cities Insurance Services Association (the "Association") is an unincorporated, nonprofit association voluntarily established by the cities, urban-county governments, and other public agencies and political subdivisions of the Commonwealth of Kentucky (the "Commonwealth") which have entered into the INTERLOCAL COOPERATION AGREEMENT TO ESTABLISH THE KENTUCKY LEAGUE OF CITIES INSURANCE SERVICES ASSOCIATION (the "Interlocal Agreement"), dated as of April 15, 1987, as authorized by the Kentucky Interlocal Cooperation Act (the "Act"), Kentucky Revised Statutes ("KRS") Sections 65.210 to 65.300, inclusive, for the purpose of undertaking joint and cooperative action to provide self-insurance and/or third-party insurance coverage against various public liability exposures, including, but not limited to: general, professional, and auto liability and related claims; workers' compensation and unemployment compensation liability; life, health and health-related coverages; and to invest public funds. It is the purpose and objective of the members to create and administer through the Association various self-insurance, insurance, and investment trusts, to utilize the funds contributed by the members to defend and indemnify the members against stated liabilities and losses, to invest the funds so as to maximize investment earnings, and to pay all debts incurred by and all expenses of the joint and cooperative undertaking.

ARTICLE II. PLACE OF BUSINESS

The principal place of business and the mailing address of the Association shall be 100 East Vine Street, Suite 800, Lexington, Kentucky 40507-3700. The Association may have other offices within the Commonwealth as the business of the Association may require from time to time.

ARTICLE III. POWERS AND AUTHORITIES

The powers and authorities of the Association to fulfill the purposes set forth in Article I above shall be the following:

- (A) To create and administer any of the following trusts:
 - (1) GENERAL INSURANCE TRUST. A joint and cooperative arrangement whereby the participating members pool their funds to provide self-insurance and/or third-party insurance coverage against various liability exposures, including, but not limited to: general, professional, auto liability, and property and related claims.
 - (2) UNEMPLOYMENT COMPENSATION REIMBURSEMENT TRUST. A joint and cooperative arrangement whereby the participating members operate as a pool of self-insured employers to provide self-insurance coverage against unemployment compensation liability.

- (3) WORKERS' COMPENSATION TRUST. A joint and cooperative arrangement whereby the participating members pool their funds to provide self-insurance coverage against workers' compensation liability.
- (4) LIFE AND HEALTH INSURANCE TRUST. A joint and cooperative arrangement whereby the participating members pool their funds to provide life, health and health-related insurance coverages for their officers and employees.
- (5) INVESTMENT TRUST. A joint and cooperative arrangement whereby the participating members pool public funds in order to maximize investment return.
- (B) To establish and enforce for each self-insurance, insurance and investment trust policies, rules, regulations, standards, and procedures to govern the relationship between the participating members and each trust.
- (C) To employ agents, service companies, and persons, firms, associations, and corporations as necessary and desirable for the sound and efficient operation of the Association and the self-insurance, insurance and investment trusts.
- (D) To make and enter into, acknowledge, deliver, and record any and all contracts, leases, agreements, deeds, indentures, and other instruments necessary and desirable to fulfill the purposes of the Association.
- (E) To purchase and hold in the name of the Association, sell, lease, pledge, exchange, and encumber real and personal property as necessary and desirable to fulfill the purposes of the Association.
- (F) To prepare and submit reports and other documents to governmental authorities as may be required by law.
- (G) To conduct educational and other programs related to the purposes and operation of the Association.
- (H) To purchase aggregate and specific excess insurance and other types of insurance or letters of credit, lines of credit, or other funding facilities as necessary to supplement the self-insurance trusts.
- (I) To borrow and raise money in the name of the Association.
- (J) To receive the disbursement of any money borrowed or the proceeds from any sale of revenue bonds issued pursuant to the Interlocal Agreement and to apply such money or proceeds in furtherance of the purposes of the Association.
- (K) To pledge all or any part of the revenues of a self-insurance trust as security for the payment of the principal of, premium, if any, and interest on any revenue bond which may be issued or other debt which may be incurred to fund the operations of the trust.
- (L) To purchase fidelity, performance, and surety bonds as necessary.

- (M) To purchase errors and omissions and other types of insurance coverages as necessary.
- (N) To act as agent or representative and attorney-in-fact of each of the members to the extent necessary to fulfill the purposes of the Association.
- (O) To pay all lawful expenses of the Association and the self-insurance, insurance and investment trusts.
- (P) To establish the duties and responsibilities of the Administrator of the Association.
- (Q) To exercise any power and undertake any activity authorized by law which is necessary and desirable in order to carry out the purposes of the Association as expressed in Article I above or the specific powers granted and duties imposed in this Article III.

ARTICLE IV. MEMBERSHIP

Membership in the Association shall be limited to those cities and urban county governments within the Commonwealth, which are members in good standing of the Kentucky League of Cities ("KLC") and their governmental boards, agencies, authorities, commissions, and institutions which qualify as "public agencies" within the meaning of KRS 65.230, and which have executed the Interlocal Agreement. Membership shall be in accordance with the terms of the Interlocal Agreement, these Articles of Association and Bylaws, and all rules, regulations, and procedures established by the Board of Trustees. A city, urban county government or other public agency may execute the Interlocal Agreement and become a member of the Association without participating in any of the self-insurance, insurance or investment trusts. However, a participant in a trust must be a member of the Association. Membership in the Association shall be effective upon the receipt at the Association's principal place of business of a copy of a duly enacted ordinance, resolution, or order of the governing body of the city, urban county government or other public agency authorizing the execution of the Interlocal Agreement and membership in the Association and [ii] a properly executed Signature Page to the Interlocal Agreement, and after all filings required by law have been accomplished.

ARTICLE V. BOARD OF TRUSTEES

SECTION 1. COMPOSITION. The Board of Trustees shall consist of a minimum of seven (7) and a maximum of nine (9) members. The exact number of members shall be set by the Kentucky League of Cities Board of Directors by resolution and may be changed at any time by subsequent resolution; provided that a change which reduces the number of members shall take effect only upon the occurrence of a vacancy or at the expiration of a member term. One (1) member shall be appointed by the KLC Board of Directors from the ranks of non-elected officials of the cities, urban county governments, and other public agencies participating in one (1) or more of the self-insurance, insurance or investment trusts. One (1) member of the Board of Trustees shall be the First Vice President of KLC. One (1) member shall be the President of KLC. The remaining members shall be appointed by the KLC Board of Directors from the ranks of elected officials of the cities, urban county governments, and other public agencies participating in one (1) or more of the self-insurance, insurance or investment trusts.

SECTION 2. TERMS OF OFFICE. The terms of office for the appointed members of the Board of Trustees shall be staggered so that four (4) members of the Board shall be appointed for one-year terms and four (4) members of the Board shall be appointed for two-year terms. The First Vice President of KLC shall serve during his or her term as First Vice President. In addition, the President of KLC shall serve during his or her term as President and shall hold a non-voting position. Appointed members may be re-appointed and may serve any number of consecutive terms.

SECTION 3. RESIGNATIONS. Any Trustee may resign at any time by giving written notice to the Board of Trustees. Unless otherwise specified in the written notice, a resignation shall be effective upon receipt of the written notice by the Board of Trustees, and acceptance of the resignation shall not be necessary to make it effective. Whenever a Trustee ceases to serve as an elected or appointed official of the city, urban county government or other public agency from which he was selected, or when the city, urban-county government, or other public agency is no longer a participant in any of the Association's self-insurance, insurance or investment trusts, the Trustee shall ipso facto relinquish his office, and a successor shall be appointed to serve the remainder of the unexpired term. Any Trustee, upon leaving office, shall deliver to the Association at its principal office any and all records, books, documents or other property in his possession or under his control which belong to the Association.

SECTION 4. REMOVAL. Any Trustee may be removed for misconduct, inability or neglect in the performance of the duties of his office upon the affirmative vote of a majority of the KLC Board of Directors, exclusive of the vote of any member of the KLC Board of Directors who may be the subject of removal. The KLC Board of Directors shall remove from office any Trustee who fails to attend three (3) consecutive regular meetings of the Board of Trustees.

SECTION 5. VACANCIES. Any vacancy on the Board of Trustees shall be filled by the KLC Board of Directors for the remainder of the unexpired term.

SECTION 6. OFFICERS. At its annual meeting each year, the Board of Trustees shall elect from among its appointed members a Chairman and a Vice-Chairman. Each officer shall hold his office from the date of the election until the annual meeting of the Board of Trustees next succeeding his election and until his successor is elected. No officer shall be allowed to serve in the same office for more than two (2) consecutive terms. For the purposes of the election of officers, the first regular meeting of the Board of Trustees in each calendar year shall be considered its annual meeting.

- (A) RESIGNATIONS. Any officer may resign his office at any time by giving written notice to the Board of Trustees. Unless otherwise specified in the written notice, a resignation shall be effective upon the receipt of the written notice by the Board of Trustees and acceptance of the resignation shall not be necessary to make it effective.
- (B) REMOVAL. Any officer may be removed from his office with or without cause at any time and a successor elected upon the affirmative vote of a majority of the Board of Trustees, exclusive of the vote of any member who is the subject of removal.
- (C) VACANCIES. Any vacancy in any office shall be filled for the unexpired portion of the term by a majority vote of the remaining members of the Board of Trustees.
- (D) OFFICERS' DUTIES. The officers of the Board of Trustees shall have the following duties:

- (1) CHAIRMAN. The Chairman shall preside at all meetings of the Board of Trustees. He shall have the authority to sign all deeds, mortgages, bonds, indentures, contracts, leases, reports, and all other documents or instruments to be executed in the course of the Association's business and which shall be authorized by the Board of Trustees. He shall perform all duties incident to the office of Chairman and any duties prescribed from time to time by the Board of Trustees.
- (2) VICE-CHAIRMAN. In the absence of the Chairman, or in the event the Chairman is unable or refuses to act, the Vice-Chairman shall perform the duties of the Chairman, and when so acting, shall have all the powers of and be subject to all the limitations imposed upon the Chairman. The Vice-Chairman shall perform other duties as may be assigned from time to time by the Chairman or the Board of Trustees.

In the absence of both the Chairman and the Vice-Chairman, the Board may confer the powers of these offices to any other member of the Board.

SECTION 7. BOARD OF TRUSTEES' SECRETARY. The Administrator of the Association shall serve as Secretary to the Board of Trustees. The Executive Director of the Administrator shall annually appoint a representative who shall be responsible for carrying out the duties of the Secretary. The duties and responsibilities of the Secretary shall be the following: to record and maintain minutes of every meeting, proceeding or act of the Board of Trustees; to see that all notices are duly given in accordance with these Articles of Association and Bylaws; to serve as the custodian of the records of the Board of Trustees and the Association; and to perform all other duties as may be assigned from time to time by the Board of Trustees.

SECTION 8. POWERS AND DUTIES. The Board of Trustees shall govern and manage the business and affairs of the Association and each of its self-insurance, insurance, and investment trusts, and shall have and exercise all the powers delegated to the Association, except those powers which may be reserved to the members. The Board of Trustees may, consistent with any applicable law or regulation, delegate any of its administrative powers, duties, and responsibilities to the Administrator, including the Administrator's officers, employees, and agents, and to other professional and service companies as necessary or desirable; provided, however, that the Board of Trustees may not delegate its authority and responsibility to:

- (A) Establish the basic policies, rules, regulations, standards, and procedures governing the operation of the Association and its self-insurance, insurance, and investment trusts.
- (B) Establish the annual or supplementary contributions to be paid by the members participating in any of the trusts or to declare and distribute surplus assets of any trust.
- (C) Make decisions regarding participation in any trust by any member, including the decision to terminate any member's participation in any trust.
- (D) Make decisions regarding the termination and dissolution of any trust.
- (E) To elect the Board's officers.
- (F) To adopt a budget for the Association and its self-insurance, insurance and investment trusts.

(G) To amend these Articles of Association and Bylaws.

(H) To authorize the issuance of revenue bonds or the incurrence of other debt.

SECTION 9. MEETINGS. The Board of Trustees shall hold at least four (4) regular meetings each year on such dates and at such times and locations within the Commonwealth as may be established by the Board. At least two (2) of the Board's regular meetings must be held during the first half of the fiscal year and at least two (2) meetings must be held during the second half of the fiscal year. Special meetings of the Board of Trustees may be called by the Chairman or by any three (3) members of the Board. The date, time, and location of any special meeting shall be determined by the Chairman or the convening authority. All meetings shall be held at such locations within the Commonwealth and at such times and on such dates as will reasonably encourage the attendance of all members of the Board of Trustees.

SECTION 10. NOTICE OF MEETINGS. At least five (5) days written notice of any regular or special meeting shall be given to each member of the Board of Trustees. Notice may be given by personal delivery or by first-class mail or telegram to the business address of the city, urban-county government or public agency of the person entitled to notice. Notice shall be deemed delivered when deposited, postage pre-paid, in the United States mail or when a telegram is delivered to the telegraph company. Whenever any notice is required to be given, a waiver thereof in writing, signed at any time, whether before or after the time of the meeting, by the person entitled to such notice, shall be deemed equivalent to the giving of such notice. The attendance at a meeting shall constitute a waiver of notice, except where the attendance at a meeting is for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

SECTION 11. QUORUM AND VOTING. A quorum shall consist of a majority of the members of the Board of Trustees. Each member of the Board of Trustees shall be entitled to one (1) vote except for the KLC President who serves in an ex-officio, non-voting capacity on the Board. The vote may be cast only by the member. No proxy votes or absentee votes shall be permitted. A simple majority of a quorum shall be sufficient to pass upon all matters, except that a majority of the entire Board shall be necessary to do the following:

(A) Declare a surplus and distribute surplus assets of a trust.

(B) Terminate a member's participation in any trust.

(C) Terminate the operation of any trust.

(D) Authorize the issuance and sale of revenue bonds or the incurrence of any other debt by the Association.

(E) Amend these Articles of Association and Bylaws.

SECTION 12. MINUTES. Minutes of all meetings, proceedings, and acts of the Board of Trustees and its committees shall be recorded by the Secretary and maintained with the records of the Association. The minutes need not be verbatim.

SECTION 13. ATTENDANCE BY TELEPHONE. Any member of the Board of Trustees may participate in any regular or special meeting of the Board by means of a conference telephone or similar

communications device, if all persons participating in the meeting can simultaneously hear each other. Participation by such means shall constitute presence in person at the meeting.

SECTION 14. ACTION BY CONSENT. Any action of the Board of Trustees may be taken without a meeting if consent thereto is signed by all Board members and filed with the records of the Board's meetings. Action by consent is effective when the last Board member signs the consent, unless a different effective date has been stated in the consent, in which event, the action taken shall be effective as of the date specified therein, provided the consent states the date of execution by each Board member.

SECTION 15. RULES OF PROCEDURE. The Board of Trustees may establish rules governing its own conduct and procedure not inconsistent with the Interlocal Agreement and these Articles of Association and Bylaws.

SECTION 16. ADVISORY COMMITTEES. The Board of Trustees may create one (1) or more advisory committees and select the Board members to serve on them. Each committee shall have two (2) or more members. The Board of Trustees shall fix the duties and responsibilities of its advisory committees; provided that no committee shall have the authority to make any final decisions on behalf of the Board. In addition to advisory committees consisting of members of the Board, the Board may appoint advisory committees consisting of elected and appointed officials of the cities, urban county governments, and other public agencies which are members of the Association to study and make reports and recommendations to the Board regarding any aspect of the Association's operations.

SECTION 17. COMPENSATION. The Board of Trustees may establish from time to time a reasonable amount of compensation on a per diem or other basis to cover attendance at meetings, which compensation shall include reimbursement for all expenses actually and reasonably incurred by them in the performance of their duties as Trustees.

SECTION 18. LIABILITY OF TRUSTEES. The members of the Board of Trustees shall use ordinary care and reasonable diligence in the exercise of their powers and the performance of their duties. No member of the Board of Trustees shall be liable for any mistake in judgment or any action taken or omitted in good faith and within the scope of the Trustee's duties; nor for any action taken or omitted by the Administrator, or any agent or service company selected with reasonable care; nor for any loss incurred through the investment of or failure to invest the funds of the Association, unless such loss was the result of gross negligence or fraud. No Trustee shall be liable for any action taken or omitted by any other Trustee.

SECTION 19. INDEMNIFICATION.

(A) The Association shall defend, indemnify and hold harmless any member or former member of the Board of Trustees from any loss, expense (including reasonable attorney's fees and other costs) or damage actually and reasonably incurred by the Trustee in connection with the following:

- (1) any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, (other than an action by or on behalf of the Association) to which the Trustee is, or is threatened to be made, a party on account of an action taken or omitted by the Trustee in good faith and within the scope of the Trustee's duties; and

- (2) any settlement or judgment, decree or order of a court or other legal tribunal arising out of an action taken or omitted by the Trustee in good faith and within the scope of the Trustee's duties.
- (B) The Association shall defend, indemnify and hold harmless any member of the Board of Trustees as provided in subsection (A) above notwithstanding any allegation that the Trustee was grossly negligent, acted in bad faith, or outside the scope of his duties as Trustee. Provided, however, the Association may refuse to pay any judgment, compromise, or settlement, and any further costs of defense in any action, suit or proceeding against a Trustee, and if the Association has paid any judgment, compromise, settlement or defense costs, it may recover from the Trustee the amount of such payment, if a court or other legal tribunal of competent jurisdiction has made a finding that:
 - (1) the Trustee acted or failed to act because of malice, fraud or corruption;
 - (2) the Trustee acted outside the scope of the Trustee's duties; or
 - (3) the action taken or the failure to act by the Trustee amounted to gross negligence.
- (C) Advancement of expenses shall be made upon receipt of an undertaking, with such security, if any, as the Board of Trustees may reasonably require, by or on behalf of the Trustee seeking indemnification to repay amounts advanced if it shall ultimately be determined that the Trustee is not entitled to be indemnified by the Association as authorized in this section.
- (D) The Association shall be authorized to purchase insurance on behalf of any person who is or was a Trustee to provide coverage against any liability which may be or is incurred by the person as a result of that person's status as Trustee.

ARTICLE VI. ADMINISTRATOR

The Association shall have no management personnel, other than its Board of Trustees, and no employees. KLC shall serve as the Administrator of the Association. The Administrator shall carry out the policies established by the Board of Trustees and provide day-to-day management of the business and affairs of the Association and its self-insurance, insurance, and investment trusts under such terms and conditions as may be agreed upon by the Administrator and the Board of Trustees, and as set forth in an agreement entered into by and between the Administrator and the Association. The services provided by the Administrator may include, but shall not be limited to: promotion of membership in the Association and participation in its self-insurance, insurance, and investment trusts; conduct of educational and other programs related to the purpose and operation of the Association; preparation and maintenance of reports, records, and accounts; performance of claims administration and risk management services; performance of financial and investment services; budget preparation; provision of legal services; and any and all other services allowed by law and deemed advisable by the Board of Trustees. The Association shall pay the Administrator for all services performed in such amounts as may be mutually agreed upon by the Board of Trustees and the Administrator. The Administrator shall purchase and maintain errors and omissions insurance coverage on its employees and furnish a fidelity bond with the Board of Trustees as obligee in such amounts as shall be determined by the Board of Trustees.

The Administrator shall serve as the Secretary to the Association Board of Trustees, as set forth in Article V, Section 7, hereof.

ARTICLE VII. MEMBER PARTICIPATION IN TRUSTS

SECTION 1. ELIGIBILITY AND APPROVAL OF PARTICIPATION. Any city, urban county government or other public agency which is a member of the Association shall be eligible to participate in any one or more of the Association's self-insurance, insurance or investment trusts. Approval of participation shall be required and the Board of Trustees shall be the sole judge as to whether a member will be allowed to participate in any trust.

A member which desires to participate in one or more trusts shall authorize such participation by an ordinance, resolution or order passed by its governing body and shall execute an application on a form prescribed by the Board of Trustees. Upon approval by the Board of Trustees, receipt by the Board of a properly executed Trust Participation Agreement, and receipt by the Board or its designee of the established contribution, the member's participation shall become effective; provided, however, that the effective date of a member's participation in a self-insurance or insurance trust shall be the same as the effective date for insurance coverage as specified in the coverage certificate issued to the member.

When trust participation has become effective, the member shall be a beneficial owner of the trust with all the rights and benefits therein, subject to the terms of the Interlocal Agreement, these Articles of Association and Bylaws, the Trust Participation Agreement, and all rules, regulations, and procedures established by the Board of Trustees.

SECTION 2. TERMINATION OF PARTICIPATION. Voluntary or involuntary termination of any member's participation in any trust shall be in accordance with the terms set forth in the applicable insurance coverage document in force at the time of termination.

The trust and its remaining members shall not be liable as a result of any act or acts of a former member occurring after the effective date of the termination, except as may be set forth in the Trust Participation Agreement between the member and the Association. After termination, the former member may be held fully liable under the terms of the Trust Participation Agreement for its proportionate share of any claim against the trust which was created during the term of its membership, including its proportionate share of any expenses incurred during the period of its membership, and for any costs incurred by the Association to collect such amounts from the former member. Upon termination, the former member's rights to reimbursement of contributions paid, to share in any surplus assets of a trust, to a return of amounts invested, and to a distribution of any investment earnings shall be governed by the terms of the Trust Participation Agreement between the member and the Association.

SECTION 3. MEMBER WITHDRAWAL. Any member may withdraw from participation in any trust and the Association after sixty (60) days written notice to the Board of Trustees; provided that the withdrawing member has discharged all of its obligations to the Association and any self-insurance, insurance or investment trust in which it has participated in accordance with these Articles of Association and Bylaws, the Trust Participation Agreement, and any other trust documents. The Board of Trustees shall send an acknowledgment of the withdrawal in writing to the withdrawing member. Upon withdrawal, the former member may be held fully liable under the terms of the Trust Participation Agreement for its proportionate share of any claim against any trust in which the former member participated which was created during the

term of its membership, including its proportionate share of any expenses incurred during the term of its membership and for any costs incurred by the Association to collect such amounts from the former member. Upon withdrawal, the former member's rights to reimbursement of contributions paid, to share in any surplus assets of any trust, to a return of amounts invested, and to a distribution of any investment earnings shall be governed by the terms of the Trust Participation Agreement between the member and the Association.

SECTION 4. TRUST PARTICIPATION AGREEMENT. Each member's participation in a trust shall be evidenced by a binding Trust Participation Agreement entered into by and between the participating member and the Association. The Trust Participation Agreement shall set forth the authorities, rights, duties, and liabilities of the participating member and the Association with respect to, among other things: the establishment of all annual and supplementary contributions to be paid by the member; the terms and conditions of any insurance coverage to be provided; the basis and procedure for returning contributions paid and distributing surplus trust assets or investment earnings to the member; the establishment and maintenance of reserves; the purchase of excess insurance and other types of insurance or letters of credit, lines of credit or other funding facilities; the investigation, settlement and litigation of claims; subrogation rights upon settlement of claims; the obligations of the participating members upon the issuance of any revenue bonds or the incurrence of other debt to fund the trust; a participating member's rights and obligations upon withdrawal or termination; and any and all other matters deemed relevant to the operation of the trust by the Board of Trustees. Each Trust Participation Agreement shall incorporate by reference these Articles of Association and Bylaws and any rules, regulations, standards or procedures adopted by the Board of Trustees.

ARTICLE VIII. TRUST MANAGEMENT - GENERAL FINANCIAL REQUIREMENTS

SECTION 1. FISCAL YEAR. The fiscal year of the Association and each of the self-insurance, insurance, and investment trusts created and administered by the Association shall be July 1 of each year through June 30 of the following year, unless a different fiscal year is established by resolution of the Board of Trustees.

SECTION 2. SEPARATE TRUSTS. Each trust described in Article III(A) above which is created by the Association shall be operated and managed as a wholly separate trust. There shall be a separate accounting and reporting of the assets and liabilities of each trust, including the extent of each member's participation in each trust. The funds of one trust shall not be commingled with the funds of any other trust; provided that the Board of Trustees shall establish a separate administrative account for payment of the general expenses of the Association and shall be authorized to determine the general expenses to be shared by each trust.

SECTION 3. MEMBER ACCOUNTS. The Board of Trustees shall be authorized to establish within each trust separate "funds" for accounting purposes as necessary or required by law and to set aside such portions of the income and revenue of the trust into such funds as the Board deems necessary or as required by law. There shall be established within each trust fund for accounting purposes a Member Account in the name of each member which is participating in the trust. Each Member Account shall indicate the contributions, investment income, and the charges (including charges for claims and losses) and expenses attributable to the individual member so that the current financial status of each member's participation in the trust can be ascertained. The Member Accounts shall not be utilized to actually segregate funds within the trust, but shall be used for accounting purposes only.

SECTION 4. ANNUAL BUDGET. The Board of Trustees shall adopt an annual budget for each self-insurance, insurance, and investment trust, which shall include estimates of anticipated receipts and expenditures in such form and detail as the Board may require. The annual budget shall be made available to the participating members.

SECTION 5. ANNUAL AUDITS AND ACTUARIAL EVALUATIONS. The Board of Trustees shall cause each trust to be audited at the end of each fiscal year by an independent certified public accountant in accordance with generally accepted accounting and auditing principles and all applicable state laws and regulations. A copy of the audit report shall be provided to each participating member which requests a copy of the audit report and to any governmental agency or officer as required by state law or regulation. In the case of a self-insurance trust, the audit report shall include an actuarial evaluation of appropriate reserves, as required by Kentucky Administrative Regulations ("KAR"), Title 806, Chapter 1:010, Section 9.

SECTION 6. DEPOSIT AND INVESTMENT OF TRUST FUNDS. All funds of the Association and each of its self-insurance, insurance, and investment trusts not needed to pay current claims, losses, and expenses shall be deposited to the credit of the Association in such banks or other depositories as the Board of Trustees shall designate, or invested as allowed under state laws and regulations.

The Board of Trustees may establish one or more revolving funds in which it may maintain such cash balances as are necessary for the purpose of paying current claims, losses, and expenses. The Board may authorize the Administrator or other agents of the Board to pay current claims, losses, and expenses from the fund(s) under such terms and conditions as the Board may establish; provided, that any agent of the Board which has access to such revolving fund(s) shall furnish a fidelity bond with the Board as obligee in such amounts as shall be determined by the Board.

SECTION 7. CHECKS, NOTES, ETC. All checks, notes, drafts, and other negotiable instruments of the Association or any of its self-insurance, insurance and investment trusts shall be signed by the Chairman of the Board of Trustees or by such other officer or agent of the Association as may be authorized by resolution of the Board of Trustees. Such authority may be general or specific.

SECTION 8. INDEBTEDNESS. No loans shall be contracted on behalf of the Association and no evidence of indebtedness shall be issued in its name, unless authorized by a resolution approved by a majority of the total membership of the Board of Trustees.

ARTICLE IX. TRUST FUNDS

SECTION 1. TRUST FINANCING. The operation of the Association and its self-insurance, insurance, and investment trusts shall be financed through the annual and supplementary contributions established by the Board of Trustees and paid to the various trusts by the participating members, through monies earned from the investment of these contributions, and through any other monies which may be lawfully received by the Association. All annual and supplementary contributions to the self-insurance and insurance trusts shall be established by the Board of Trustees based on actuarial evaluations and other analyses of the amounts necessary for the payment of claims and losses, the payment of premiums for insurance and excess or re-insurance policies, the establishment and maintenance of reasonable reserves, the payment of the principal of, premium, if any, and interest on any debt incurred by the Association, including the principal of, premium, if any, and interest on any revenue bonds which may be issued and sold to fund

the operations of any self-insurance trust, and the payment of any and all expenses of the Association reasonably and lawfully incurred in connection with its operations.

The amounts contributed to any investment trust shall be at the discretion of the participating member, subject to any rules and regulations established by the Board of Trustees; provided that each participating member shall be responsible for its proportionate share of expenses, as determined by the Board.

SECTION 2. AUTHORIZATION TO ISSUE REVENUE BONDS AND BORROW MONEY.

If the Board of Trustees in its discretion finds that the assets of any self-insurance trust are inadequate to pay claims, losses or expenses, or that additional funds are necessary to establish or maintain adequate reserves, or that additional funds are required for the repayment of any letter of credit, line of credit or other funding facility which may have been utilized to pay any claims, losses or expenses of the self-insurance trust, the Board of Trustees is hereby authorized to select any one or more of the cities, urban county governments or other public agencies which are participating in the self-insurance trust to issue negotiable revenue bonds or borrow money in order to fund the operations of the trust, including any and all claims, losses and expenses of the trust.

Any city, urban county government or other public agency selected by the Board of Trustees is hereby authorized to issue negotiable revenue bonds or borrow money, pursuant to KRS 65.270 and any other applicable law, on behalf of all the public agencies which are parties to the Interlocal Agreement, and to approve, execute and deliver all indentures, agreements, certificates, and other documents related to the issuance of such revenue bonds or necessary to borrow money, and to take any and all other actions necessary to effect the issuance and sale of such revenue bonds or borrow money, including pledging of all or any part of the revenues of the self-insurance trust for which the revenue bonds are issued or the other debt incurred as security for such revenue bonds or other debt, subject to the following limitations:

- (A) The principal amount of such revenue bonds and other debt shall not exceed Two Million Dollars (\$2,000,000).
- (B) The maturities of such revenue bonds or other debt shall not exceed thirty (30) years.
- (C) The interest rate on such revenue bonds or other debt shall not exceed twenty-two percent (22%).
- (D) The principle amount of such revenue bonds or other debt and the interest thereon shall be payable solely from and secured solely by the revenues of the self-insurance trust for which the revenue bonds are issued or the other debt incurred, which is derived as set forth in Section 1 of this Article IX, and shall never constitute a general obligation or indebtedness, within the meaning of the constitution and laws of the Commonwealth, of any city, urban-county government or other public agency which is a party to the Interlocal Agreement, or of the Commonwealth or any political subdivision of the Commonwealth.
- (E) Any and all borrowed money and the proceeds received from the issuance of any revenue bonds shall be applied solely to fund the operations of the self-insurance trust for which the revenue bonds are issued or the debt is incurred and to pay the expenses associated with the financing or the issuance and sale of the bonds or to advance the payment of interest on the bonds during the first three (3) years following the date of issuance of the bonds.

- (F) The issuance of such revenue bonds or the incurrence of other debt shall be pursuant to a duly enacted order, resolution or ordinance of the governing body of the city, urban county government or other public agency selected by the Board of Trustees, which complies with the terms of KRS 65.270 and any other applicable law.
- (G) The issuance and sale of such revenue bonds or the incurrence of other debt and the arrangements for the repayment of such debt shall comply in all other respects to the requirements of KRS 65.270 and any other applicable law.

SECTION 3. USE OF TRUST FUNDS. All contributions paid to the Association and all earnings from the investment of those funds shall be the property of the participating members. No funds of the Association or any of its self-insurance, insurance, and investment trusts shall be appropriated for any purpose other than the payment of claims and losses, the establishment of reasonable reserves, the payment of the principal of, premium, if any, and interest on any revenue bonds which may be issued or other debt which may be incurred to fund the operations of any self-insurance trust and the payment of any and all reasonable and necessary expenses incurred by the Association. The Association shall be obligated to return any surplus funds to the participating members, but only at such times and upon such terms and conditions as may be determined by the Board of Trustees.

ARTICLE X. TRUST DISSOLUTION

The Board of Trustees shall have the authority to terminate any self-insurance, insurance or investment trust at any time by a written instrument executed by a majority of the Trustees and delivered to each of the members participating in the Trust; provided, that no self-insurance trust for which a certificate of filing has been issued by the Commissioner of Insurance shall be terminated until after the Commissioner of Insurance has granted a termination of the certificate as required by 806 KAR 1:010 (Section 5); and provided further that, no self-insurance trust shall be terminated until after the final payment and retirement, or the completion of satisfactory arrangements for the final payment or retirement, of any revenue bonds which may have been issued or other debt which may have been incurred in connection with the operations of the trust. Prior to the termination of any trust, the Board of Trustees shall develop or cause to be developed and approve a plan to discharge all obligations of the trust, including the final payment or retirement of any outstanding revenue bond debt or other debt which may have been incurred in connection with the operations of the trust, and to liquidate and return proportionately to the participating members all assets of the trust, if any, which remain after all trust obligations have been satisfied. No termination of any trust shall operate to diminish or eliminate any rights or obligations of the participating members with respect to any claims or expenses arising prior to the effective date of such termination.

ARTICLE XI. AMENDMENTS

These Articles of Association and Bylaws may be amended or repealed by the affirmative vote of a majority of the Board of Trustees. All amendments shall take effect on July 1st following the date of adoption unless otherwise specified by the Board of Trustees; provided, however, that no amendment shall become effective until notice has been sent to the members.

Amended Effective JULY 1, 1991
Amended Effective APRIL 26, 1997
Amended Effective AUGUST 1, 1999
Amended Effective MAY 1, 2006
Amended Effective AUGUST 23, 2007
Amended Effective FEBRUARY 7, 2008