INVITATION TO BID

Bid Invitation Number: #31-2014 Date of Issue: **02/18/2014**

Sealed bids will be received in the office of the Division of Central Purchasing, 200 East Main Street, Lexington, Kentucky, until **2:00 PM**, prevailing local time on **03/04/2014**. Bids must be received by the above-mentioned date and time. Mailed bids should be sent to:

Division of Central Purchasing
200 East Main Street, Rm 338
Lexington, KY 40507, (859) 258-3320

The Lexington-Fayette Urban County Government assumes no responsibility for bids that are not addressed and delivered as indicated above. Bids that are not delivered to the Division of Central Purchasing by the stated time and date will be rejected.

All bids must have the company name and address, bid invitation number, and the commodity/service on the outside of the envelope.

Bids are to include all shipping costs to the point of delivery located at: 247 E Second St, Lexington, KY

Bid Security Required: ___Yes __x_No Performance Bond Required: ___Yes _x__No
Cashier Check, Certified Check, Bid Bond (Personal checks and company checks will not be acceptable).

Commodity/Service
Custodial Services – Coroner's Office
See specifications

Check One:	**Proposed Delivery:**
______Bid Specifications Met ______Exceptions to Bid Specifications. *Exceptions shall be itemized and attached to bid proposal submitted.*	______days after acceptance of bid.

Procurement Card Usage
______Yes The Lexington-Fayette Urban County Government will be using Procurement Cards to ______No purchase goods and services and also to make payments. Will you accept Procurement Cards?

Submitted by: DellaValle Management Inc.
Firm
P.O. Box #910888
Address
Lexington, Kentucky 40591
City, State & Zip

Bid must be signed: (original signature)

[signature]
Signature of Authorized Company Representative – Title
Glen DellaValle - President/Owner
Representative's Name (Typed or printed)
(859) 621-6569 n/a
Area Code - Phone – Extension *Fax #*
dellmgmtgroup@aol.com
E-Mail Address

The Affidavit in this bid must be completed before your firm can be considered for award of this contract.

AFFIDAVIT

Comes the Affiant, Glen DellaValle, and after being first duly sworn under penalty of perjury as follows:

1. His/her name is Glen DellaValle and he/she is the individual submitting the bid or is the authorized representative of DellaValle Management Inc., the entity submitting the bid (hereinafter referred to as "Bidder").

2. Bidder will pay all taxes and fees, which are owed to the Lexington-Fayette Urban County Government at the time the bid is submitted, prior to award of the contract and will maintain a "current" status in regard to those taxes and fees during the life of the contract.

3. Bidder will obtain a Lexington-Fayette Urban County Government business license, if applicable, prior to award of the contract.

4. Bidder has authorized the Division of Central Purchasing to verify the above-mentioned information with the Division of Revenue and to disclose to the Urban County Council that taxes and/or fees are delinquent or that a business license has not been obtained.

5. Bidder has not knowingly violated any provision of the campaign finance laws of the Commonwealth of Kentucky within the past five (5) years and the award of a contract to the Bidder will not violate any provision of the campaign finance laws of the Commonwealth.

6. Bidder has not knowingly violated any provision of Chapter 25 of the Lexington-Fayette Urban County Government Code of Ordinances, known as "Ethics Act."

7. Bidder acknowledges that "knowingly" for purposes of this Affidavit means, with respect to conduct or to circumstances described by a statute or ordinance defining an offense, that a person is aware or should have been aware that his conduct is of that nature or that the circumstance exists.

8. Bidder at all times relevant to the performance of any services or work on behalf of the Lexington-Fayette Urban County Government, the Bidder has fully complied with, and will continue to comply with the provisions of the Federal Fair Labor Standards Act (29 U.S.C. Chapter 8) and KRS 337.225, pertaining to the payment of minimum wages and as otherwise applicable to such services or work performed.

Further, Affiant sayeth naught. Glen Dell

STATE OF Kentucky

COUNTY OF Fayette

The foregoing instrument was subscribed, sworn to and acknowledged before me

by Glen DellaValle on this the 4th day

of March, 201~~X~~14

My Commission expires: 12/2/17

Notary ID 501741

NOTARY PUBLIC, STATE AT LARGE

Please refer to Section II. Bid Conditions, Item "U" prior to completing this form.

GENERAL PROVISIONS OF BID CONTRACT

By signing the below, bidder acknowledges that it understands and agrees with the following provisions related to its bid response and the provision of any goods or services to LFUCG upon selection by LFUCG pursuant to the bid request:

1. Bidder shall comply with all Federal, State & Local regulations concerning this type of service or good.

2. Failure to submit ALL forms and information required by LFUCG may be grounds for disqualification.

3. Addenda: All addenda, if any, must be considered by the bidder in making its response, and such addenda shall be made a part of the requirements of the bid contract. Before submitting a bid response, it is incumbent upon bidder to be informed as to whether any addenda have been issued, and the failure of the bidder to cover any such addenda may result in disqualification of that response.

4. Bid Reservations: LFUCG reserves the right to reject any or all bid responses, to award in whole or part, and to waive minor immaterial defects in proposals. LFUCG may consider any alternative proposal that meets its basic needs.

5. Liability: LFUCG is not responsible for any cost incurred by bidder in the preparation of its response.

6. Changes/Alterations: Bidder may change or withdraw a proposal at any time prior to the opening; however, no oral modifications will be allowed. Only letters, or other formal written requests for modifications or corrections of a previously submitted proposal which is addressed in the same manner as the bid response, and received by LFUCG prior to the scheduled closing time for receipt of bids, will be accepted. The bid response when opened, will then be corrected in accordance with such written request(s), provided that the written request is contained in a sealed envelope which is plainly marked "modifications of bid response".

7. Clarification of Submittal: LFUCG reserves the right to obtain clarification of any point in a bid or to obtain additional information from any bidder.

8. Bribery Clause: By his/her signature on its response, bidder certifies that no employee of his/hers, any affiliate or subcontractor, has bribed or attempted to bribe an officer or employee of the LFUCG.

9. Additional Information: While not necessary, the bidder may include any product brochures, software documentation, sample reports, or other documentation that may assist LFUCG in better understanding and evaluating the bid response. Additional documentation shall not serve as a substitute for other documentation which is required by the LFUCG to be submitted with the bid response.

10. Ambiguity, Conflict or other Errors: If a bidder discovers any ambiguity, conflict, discrepancy, omission or other error in the bid request of LFUCG, it shall immediately notify LFUCG of such error in writing and request modification or clarification of the document if allowable by the LFUCG.

11. Agreement to Bid Terms: In submitting its bid response, the bidder agrees that it has carefully examined the specifications and all provisions relating to LFUCG's bid request, including but not limited to the bid contract. By submission of its bid response, bidder states that it understands the meaning, intent and requirements of LFUCG's bid request and agrees to the same. The successful bidder shall warrant that it is familiar with and understands all provisions herein and shall warrant that it can comply with them. No additional compensation to bidder shall be authorized for services, expenses, or goods reasonably covered under these provisions that the bidder omits from its bid response.

12. Cancellation: LFUCG may unilaterally terminate the bid contract with the selected bidder(s) at any time, with or without cause, by providing at least thirty (30) days advance written notice unless a different advance written notice period is negotiated prior to contract approval. Payment for services or goods

received prior to termination shall be made by the LFUCG provided these goods or services were provided in a manner acceptable to the LFUCG. Payment for those goods and services shall not be unreasonably withheld.

13. Assignment of Contract: The selected bidder(s) shall not assign or subcontract any portion of the bid contract with LFUCG without the express written consent of LFUCG. Any purported assignment or subcontract in violation hereof shall be void. It is expressly acknowledged that LFUCG shall never be required or obligated to consent to any request for assignment or subcontract; and further that such refusal to consent can be for any or no reason, fully within the sole discretion of LFUCG.

14. No Waiver: No failure or delay by LFUCG in exercising any right, remedy, power or privilege hereunder, nor any single or partial exercise thereof, nor the exercise of any other right, remedy, power or privilege shall operate as a waiver hereof or thereof. No failure or delay by LFUCG in exercising any right, remedy, power or privilege under or in respect of this bid proposal or bid contract shall affect the rights, remedies, powers or privileges of LFUCG hereunder or shall operate as a waiver thereof.

15. Authority to do Business: Each bidder must be authorized to do business under the laws of the Commonwealth of Kentucky and must be in good standing and have full legal capacity to provide the goods or services specified in the bid proposal. Each bidder must have all necessary right and lawful authority to submit the bid response and enter into the bid contract for the full term hereof including any necessary corporate or other action authorizing the bidder to submit the bid response and enter into this bid contract. If requested, the bidder will provide LFUCG with a copy of a corporate resolution authorizing this action and/or a letter from an attorney confirming that the proposer is authorized to do business in the Commonwealth of Kentucky. All bid responses must be signed by a duly authorized officer, agent or employee of the bidder.

16. Governing Law: This bid request and bid contract shall be governed by and construed in accordance with the laws of the Commonwealth of Kentucky. In the event of any proceedings regarding this matter, the bidder agrees that the venue shall be the Fayette County Circuit Court or the U.S. District Court for the Eastern District of Kentucky, Lexington Division and that the bidder expressly consents to personal jurisdiction and venue in such Court for the limited and sole purpose of proceedings relating to these matters or any rights or obligations arising thereunder.

17. Ability to Meet Obligations: Bidder affirmatively states that there are no actions, suits or proceedings of any kind pending against bidder or, to the knowledge of the bidder, threatened against the bidder before or by any court, governmental body or agency or other tribunal or authority which would, if adversely determined, have a materially adverse effect on the authority or ability of bidder to perform its obligations under this bid response or bid contract, or which question the legality, validity or enforceability hereof or thereof.

18. Bidder understands and agrees that its employees, agents, or subcontractors are not employees of LFUCG for any purpose whatsoever. Bidder is an independent contractor at all times related to the bid response or bid contract.

19. If any term or provision of this bid contract shall be found to be illegal or unenforceable, the remainder of the contract shall remain in full force and such term or provision shall be deemed stricken.

Signature ______________________ Date 3/3/14

PRICING SHEET

The Contractor shall submit a daily cost to provide the specified services, which includes labor, equipment, and cleaning supplies. Bidder should also submit a daily cost to provide spray buffing services (to be performed one (1) day a week).

Regular cleaning services will be required 5 days a week.
Spray Buffing will be required 1 day a week on Wednesday.

Cost for all specified cleaning services, except spray buffing. $ 18.00 /per day *

Cost for spray buffing services. $ 21.00 /per day *

*** Invoices should vary based on the number of working days in a given month**

CONTRACTOR'S CLEANING PRODUCTS

LFUCG requires the use of environmentally preferred products. (GREEN CLEANERS)

During each inspection the janitorial closets will be inspected for the correct environmental cleaning chemicals. Any chemicals that have not been approved for usage will be removed from the janitorial closet

Product Name	**Intended Use**	**Using Product at Time of Inspection**		**Non-Green Product**
		Yes	No	
All products	used for		cleaning	will
be within	specifications	and		guidelines

Contractor Experience & References

The Contractor is encouraged to submit the information requested below with their proposal. If the information is not provided with the bid and the Contractor has the low bid the LFUCG will contact the Contractor and give a 24 hour notification to provide the information. **If the information is not received by the end of the 24 hour period the bid will be rejected.** Please attach additional sheets as necessary.

1. Years the company has been in business as a custodial service.

   20yrs-Private Custodial Svc years

2. List jobs of comparable size to this contract which your company has held within the past 5 years. Please include a contact person and a phone number.

Business Name	Contact Information (Name & Phone)
1021 Majestic Council of Owners	David Briggs (859) 223-1278
3151 Beaumont Council of Owners	Bryan May (Century Mortgage) (859) 296-5959
Lofts of Main & Rose Bldg.	Jason Taylor (Equity Mgmt Group) (859) 226-1414

3. Please provide a list of current contracts and number of hours required per day.

Business Name	Contact Information (Name & Phone)	No. of hours per day
1021 Majestic Council of Owners	same as above	3 hrs.
3151 Beaumont Council of Owners	same as above	3 hrs.
Lofts of Main & Rose Bldg.	same as above	40 hrs.

4. Annual volume of business by dollars and square footage.

   $ 138,000.00 annually   200,000 sq. ft.

EQUAL OPPORTUNITY AGREEMENT

The Law

- Title VII of the Civil Rights Act of 1964 (amended 1972) states that it is unlawful for an employer to discriminate in employment because of race, color, religion, sex, age (40-70 years) or national origin.

- Executive Order No. 11246 on Nondiscrimination under Federal contract prohibits employment discrimination by contractor and sub-contractor doing business with the Federal Government or recipients of Federal funds. This order was later amended by Executive Order No. 11375 to prohibit discrimination on the basis of sex.

- Section 503 of the Rehabilitation Act of 1973 states:

  The Contractor will not discriminate against any employee or applicant for employment because of physical or mental handicap.

- Section 2012 of the Vietnam Era Veterans Readjustment Act of 1973 requires Affirmative Action on behalf of disabled veterans and veterans of the Vietnam Era by contractors having Federal contracts.

- Section 206(A) of Executive Order 12086, Consolidation of Contract Compliance Functions for Equal Employment Opportunity, states:

  The Secretary of Labor may investigate the employment practices of any Government contractor or sub-contractor to determine whether or not the contractual provisions specified in Section 202 of this order have been violated.

****

The Lexington-Fayette Urban County Government practices Equal Opportunity in recruiting, hiring and promoting. It is the Government's intent to affirmatively provide employment opportunities for those individuals who have previously not been allowed to enter into the mainstream of society. Because of its importance to the local Government, this policy carries the full endorsement of the Mayor, Commissioners, Directors and all supervisory personnel. In following this commitment to Equal Employment Opportunity and because the Government is the benefactor of the Federal funds, it is both against the Urban County Government policy and illegal for the Government to let contracts to companies which knowingly or unknowingly practice discrimination in their employment practices. Violation of the above mentioned ordinances may cause a contract to be canceled and the contractors may be declared ineligible for future consideration.

Please sign this statement in the appropriate space acknowledging that you have read and understand the provisions contained herein. Return this document as part of your application packet.

<u>Bidders</u>

I/We agree to comply with the Civil Rights Laws listed above that govern employment rights of minorities, women, Vietnam veterans, handicapped and aged persons.

DellaValle Management Inc.

Signature | Name of Business

WORKFORCE ANALYSIS FORM

Name of Organization: DellaValle Management Inc. Date: 3 / 4 / 2014

Categories	Total	White		Black		Other		Total	
		M	F	M	F	M	F	M	F
Administrators									
Professionals		4	2						
Superintendents									
Supervisors		1							
Foremen									
Technicians									
Protective Service									
Para-Professionals									
Office/Clerical		2	3				2		
Skilled Craft									
Service/Maintenance		8	1	1					
Total:		15	6	1			2	15	8

Prepared by: Jamie L. Wilson, Vice-President
Name & Title

EVIDENCE OF INSURABILITY
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT PROJECT
(Use separate form for each Agency or Brokerage agreeing to provide coverage)

Names Insured: Della Valle Management, Inc

Employee ID: 41-2243574

Address: P.O. Box 910888

Lexington, Ky 40591

Phone: 859-273-6000

Project to be insured: ____________________

In lieu of obtaining certificates of insurance at this time, the undersigned agrees to provide the above Named Insured with the minimum coverage listed below. These are outlined in the Insurance and Risk Management of Part V (Special Conditions), including all requirements, and conditions:

Coverage	Minimum Limits and Policy Requirements	Limits Provided To Insured	Name of Insurer	A.M. Best's Code	A.M. Best's Rating
CGL	$1,000,000/per occ. $2,000,000 aggregate	$ 1M / 2M	Motorists Mutual	14621	A
AUTO	$1,000,000/per occ.	$ 1M	Motorists Mutual	14621	A
WC	Statutory w/endorsement for Employer's Liability for $500,000/ per occ.	$ 2M/2M/2M	Kesa	Self Insured Fund	

The Risk Management Provisions Insurance and Indemnification required provisions, statements regarding insurance requirements, and the undersigned agrees to abide by all provisions for the coverage's checked above unless stated otherwise when submitting.

Fritts-Miller Ins
Agency or Brokerage

20 Court St
Street Address

Mt Sterling Ky 40353
City State Zip

859-498-5800
Telephone Number

Julie Spurlock
Name of Authorized Representative

Agent/CSR
Title

Julie Spurlock
Authorized Signature

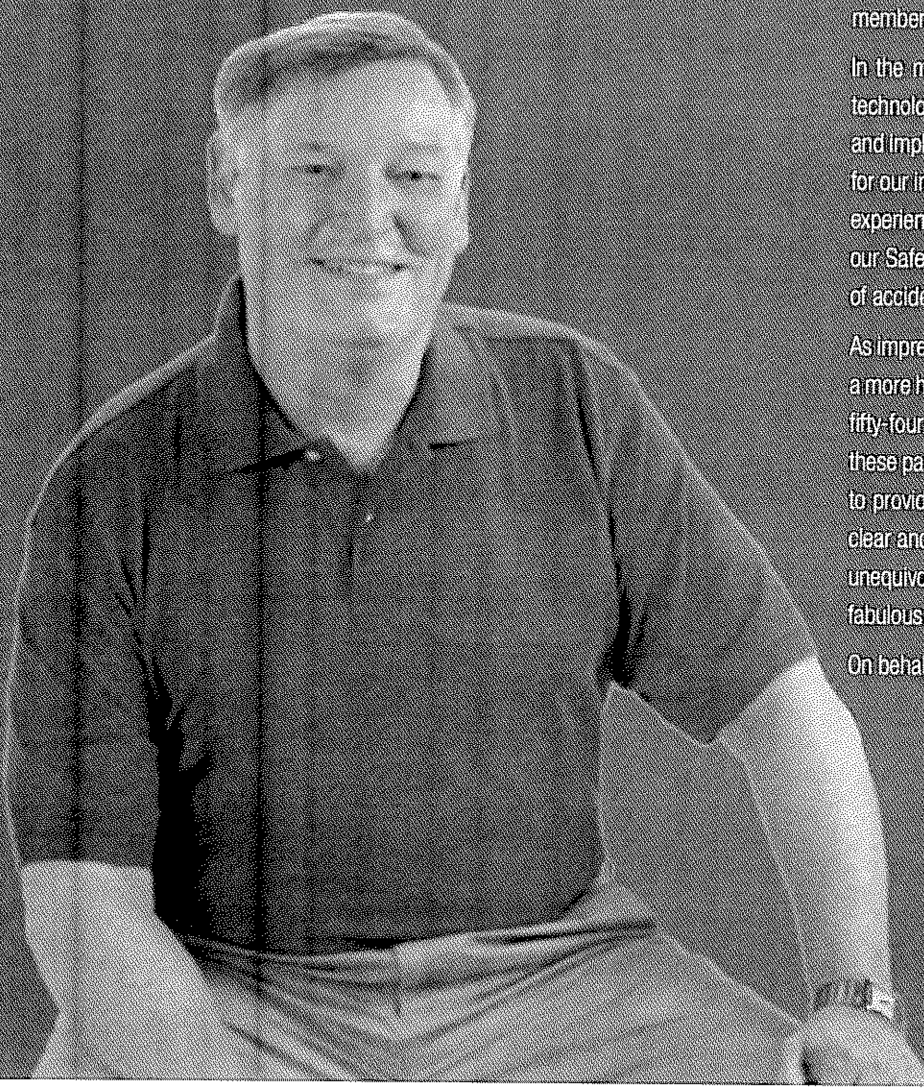
2-27-14
Date

NOTE: Authorized signatures may be the agent's if agent has placed insurance through an agency agreement with the insurer. If insurance is brokered, authorized signature must be that of authorized representative of insurer.

CONTRACT MAY NOT BE AWARDED IF A COMPLETED AND SIGNED COPY OF THIS FORM FOR ALL COVERAGE'S LISTED ABOVE IS NOT PROVIDED.

STRENGTH IN NUMBERS

KESA
Workers' Comp



STRENGTH IN NUMBERS

KESA's Strength in Numbers is certainly well-demonstrated on the following pages of this annual report. Despite a still-struggling economy and tentative employment growth, not to mention rising medical costs across the board, KESA strengthened its financial position by significant margins in 2012. KESA closed the year with our earned premiums totaling $50,512,433, which is up over 6% from $47,445,729 at the close of 2011. Our cash and invested assets grew to $184,655,963, up 6.2% from $173,897,886 a year ago, and our members' equity totaled $32,830,857, which is up 9% from last year's total of $30,116,567. Our insured payrolls reached $4,411,641,298 and our member count grew to 6,517 from 6,138 last year.

In the midst of achieving strong financial results we continued our commitment to investing in technology. We improved our operational efficiency with updates to our data management system and implementation of new underwriting tools. We launched a new, more convenient payment plan for our injured employees. We updated our web site to enhance both our insureds' and producers' experiences and, because we know the best claim is the one that never happens, we rolled out our Safety W.O.R.K.S.Training Center to assist our insureds in training, education, and awareness of accident prevention.

As impressive as our financial and operational results for 2012 are, there is another set of numbers, a more human set of numbers, that makes KESA the best workers' comp provider in Kentucky. The fifty-four people who walk through KESA's doors every day; the people you see sprinkled around these pages. Every day at KESA, we come to work with one goal in mind – to be the best. We want to provide the best service, underwrite accounts with precision, care for injured employees with clear and accurate communication, answer every question quickly and knowledgeably, and be the unequivocal first choice for workers' comp in Kentucky. I am endlessly proud to work alongside this fabulous team of people. I know they are KESA's true Strength in Numbers.

On behalf of the entire KESA team, thank you for partnering with KESA.

Gregory L. Bin...

Chief Executive Officer

Our 'Strength in Numbers' comes from our dedicated and highly skilled employees along with over 33 years of our strong commitment to be a fiscally responsible fund.

GREGORY L. BUIE
Chief Executive Officer

KESA 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 KESA.

Robin Engleking
Assistant Claims Manager

TABLE OF CONTENTS

JOHNSON LAMBERT LLP

Report of Independent Auditors

Board of Trustees
KESA, The Kentucky Workers' Compensation Fund
Louisville, Kentucky

We have audited the accompanying financial statements of KESA, The Kentucky Workers' Compensation Fund (the Fund) which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of comprehensive income and changes in members' equity and cash flows for the years then ended and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KESA, The Kentucky Workers' Compensation Fund as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Johnson Lambert LLP

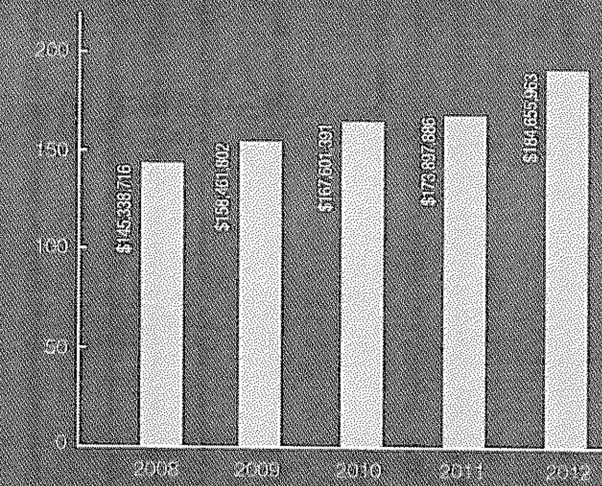
Raleigh, North Carolina
April 19, 2013

BALANCE SHEETS
(December 31, 2012 and 2011)

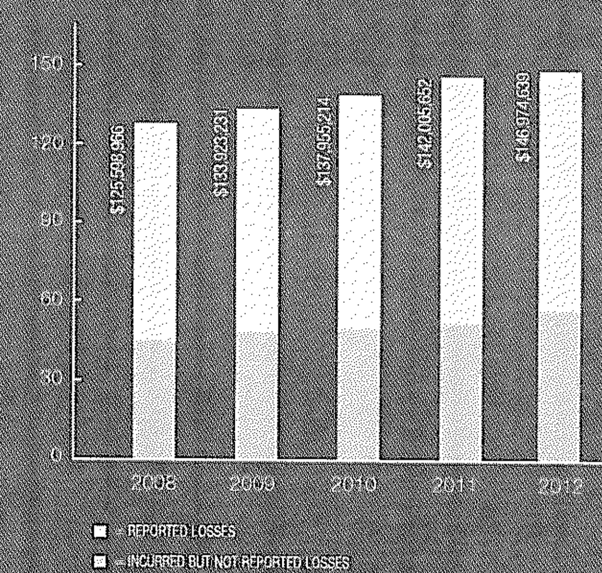
	2012	2011
ASSETS		
Bonds	$132,399,112	$142,698,485
Equities	24,497,907	21,516,405
Cash and short term investments	27,758,944	9,682,996
Prepaid reinsurance premiums	-	1,744,016
Deferred policy acquisition costs	2,723,378	2,543,706
Accrued interest and dividends	762,298	954,073
Agents' balances or uncollected premiums	15,124,747	14,040,418
Reinsurance recoverable on paid losses	314,059	97,208
Reinsurance recoverable on loss and loss adjustment expenses	5,991,292	5,627,089
Reinsurance premium receivable	-	146,590
Current federal income taxes recoverable	163,657	124,937
Furniture and equipment, net	924,653	722,412
Other assets	469,762	818,187
Total Assets	$211,129,809	$200,716,522
LIABILITIES AND MEMBERS' EQUITY		
Case basis loss and loss adjustment expense reserves	$56,448,512	$53,976,049
Incurred but not reported loss and loss adjustment expense reserves	90,526,127	88,029,603
	146,974,639	142,005,652
Unearned premiums	21,334,376	19,859,913
Advance premiums	2,858,844	2,494,252
Commissions payable and other similar charges	942,594	709,586
Accounts payable and accrued expenses	834,681	912,425
Special fund tax payable	1,419,190	1,311,419
Net deferred tax liability	3,528,413	3,178,349
Ceded premiums payable	406,215	128,369
Total Liabilities	178,298,952	170,599,965
MEMBERS' EQUITY		
Retained earnings	24,985,082	23,433,168
Accumulated other comprehensive income, net of tax	7,845,775	6,683,389
Total Members' Equity	32,830,857	30,116,557
Total Liabilities and Members' Equity	$211,129,809	$200,716,522

See accompanying notes

CASH AND INVESTED ASSETS
IN MILLIONS



LOSS & LOSS EXPENSE RESERVES
IN MILLIONS



STATEMENTS OF INCOME

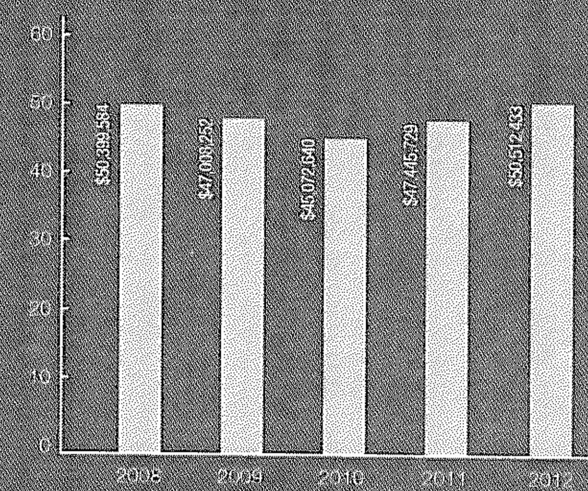
(Year Ended December 31, 2012 and 2011)

	2012	2011
Revenues		
Direct premiums earned	**$50,512,433**	$47,445,729
Ceded premiums earned	**(5,463,978)**	(3,576,480)
Net investment income earned	**4,666,387**	5,115,325
Net realized capital gains	**1,741,556**	740,329
Total revenues	**51,456,398**	49,724,903
Expenses		
Loss and loss adjustment expenses incurred, net	**37,827,491**	37,619,713
Commissions	**6,058,756**	5,603,102
Other underwriting expenses incurred	**4,997,034**	4,846,046
Total expenses	**48,883,281**	48,068,861
Income before income tax expense (benefit)	**2,573,117**	1,656,042
Income tax expense (benefit)	**1,021,203**	954,189
Net Income	**$1,551,914**	$701,853
Other Comprehensive Income:		
Unrealized holding gains on available for sale securities, net of income tax of $1,190,934 and $450,136	**2,311,813**	873,794
Less reclassification adjustment for realized gains included in net income, net of income tax of $592,129 and $251,712	**(1,149,427)**	(488,617)
Total Comprehensive Income	**2,714,300**	1,087,030
Beginning Members' Equity	**30,116,557**	29,029,527
Ending Members' Equity	**$32,830,857**	$30,116,557

See accompanying notes.

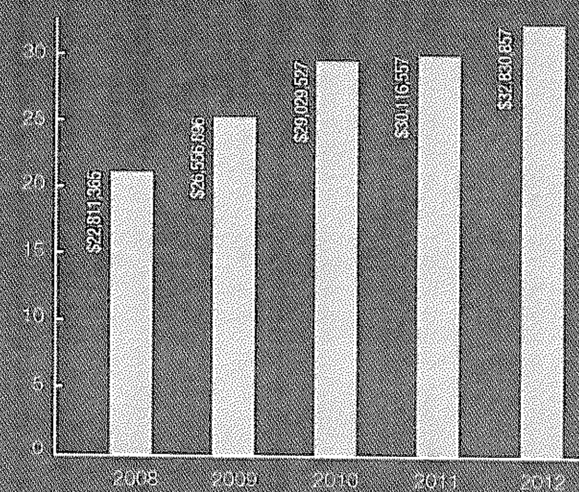
EARNED PREMIUMS

IN MILLIONS



MEMBERS' EQUITY

IN MILLIONS



STATEMENTS OF CASH FLOWS

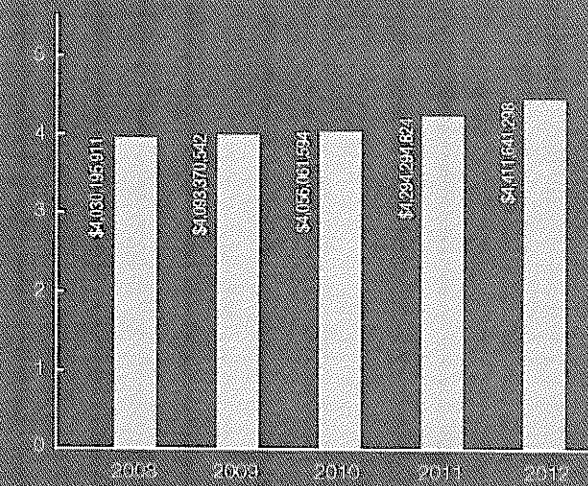
(Year Ended December 31, 2012 and 2011)

	2012	2011
Cash provided by operating activities		
Net income	**$1,551,914**	$701,853
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**382,141**	314,345
Net realized gains on investments	**(1,741,556)**	(740,329)
Amortization of premiums and discounts, net	**306,111**	176,457
Deferred federal income taxes	**332,484**	932,965
Increase (decrease) in cash due to changes in		
Deferred policy acquisition costs	**(179,672)**	(277,408)
Reinsurance premium receivable	**146,590**	(146,590)
Prepaid reinsurance premiums	**1,744,016**	(13,489)
Current federal income taxes recoverable	**(38,720)**	98,584
Accrued interest and dividends	**191,775**	58,857
Agents' balances or uncollected premiums	**(1,084,329)**	(1,490,323)
Reinsurance recoverable on paid losses	**(216,851)**	61,556
Reinsurance recoverable on loss and loss adjustment expenses	**(364,203)**	(6,247)
Other assets	**348,425**	(241,831)
Loss and loss adjustment expense reserves	**4,968,987**	4,050,438
Unearned premiums	**1,474,463**	1,558,120
Advance premiums	**364,592**	(70,890)
Commissions payable and other similar charges	**233,008**	281,430
Accounts payable and accrued expenses	**(77,744)**	31,136
Ceded premiums payable	**277,846**	128,369
Special fund tax payable	**107,771**	132,158
Net cash provided by operating activities	**8,727,048**	5,539,161
Cash used in investing activities		
Purchases of investments	**$(49,618,351)**	$(54,853,980)
Proceeds from sales and maturities of investments	**59,551,633**	46,984,934
Purchase of furniture and equipment	**(584,382)**	(390,139)
Net cash used in investing activities	**9,348,900**	(8,259,185)
Net decrease in cash and short term investments	**18,075,948**	(2,720,024)
Cash and short term investments, beginning of year	**9,682,996**	12,403,020
Cash and short term investments, end of year	**$27,758,944**	$9,682,996
Supplemental disclosures of cash flow information:		
Cash recovered during the year for income taxes	**$725,000**	$(61,472)

See accompanying notes

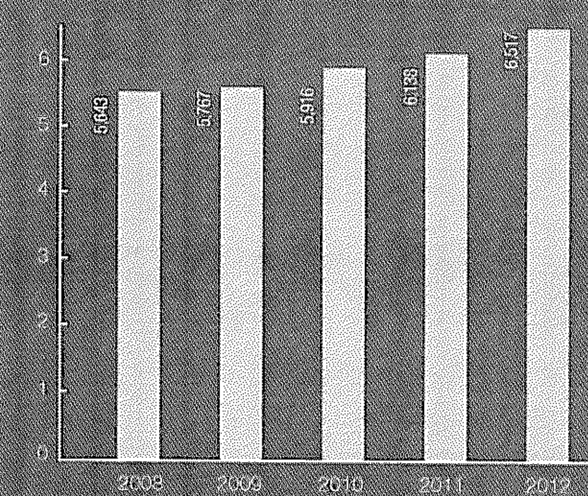
INSURED PAYROLLS

IN BILLIONS



MEMBER COUNT

IN THOUSANDS



NOTES TO FINANCIAL STATEMENTS

Note A: Description of The Fund

Organization

KESA, The Kentucky Workers' Compensation Fund ("the Fund"), was organized January 1, 1980 as a self-insurance fund administered by Trustees, who are primarily members of the Kentucky Employers Safety Association, Inc. The purpose of the Fund is to provide insurance to members for workers' compensation risks. The Fund is not intended to be a profit-making entity.

The Fund's by-laws and certain statutes of the Commonwealth of Kentucky state that premiums are to be collected in an amount necessary to provide the Fund sufficient monies to pay claims based upon statutory requirements. The Trustees are restricted from utilizing any of the premiums collected for any purpose unrelated to the Fund's self-insurance program. Dividends may not be approved or paid until at least 36 months after the expiration of the self-insurance term, and can only be paid from surplus funds not required for payment of claims or other liabilities. Payment of dividends must be approved by the Kentucky Department of Insurance.

It is the Trustees' intent to apply excess premium arising from a self-insurance term as an offset against premium deficiencies which may arise from other self-insurance terms. Any excess premium remaining after the above application may be refunded at the discretion of the Trustees at the end of the 36-month period. If the assets of the Fund are not sufficient to permit the Fund to discharge its liabilities and to maintain required reserves, the Fund may assess its members for the amount necessary to eliminate the deficiency.

Note B: Summary of Significant Accounting Policies

Basis of Reporting

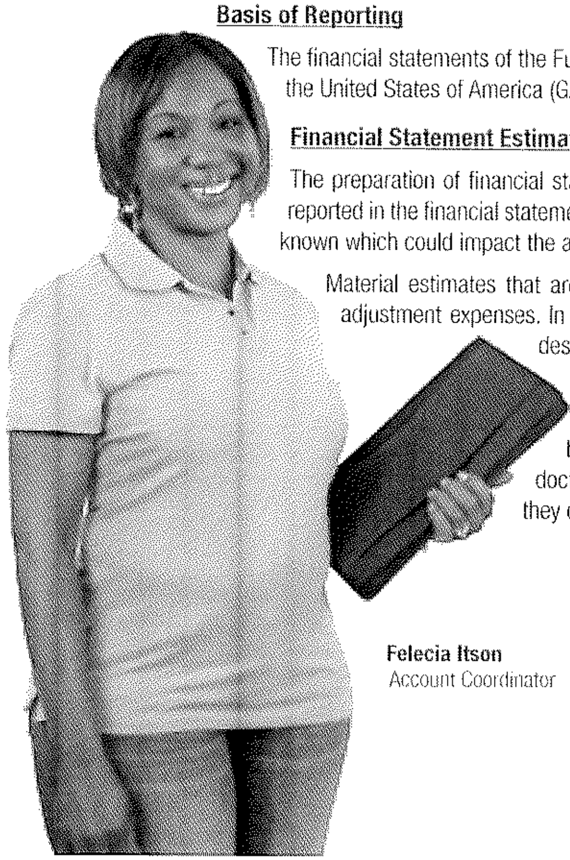
The financial statements of the Fund have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Fund follows accounting and reporting policies for insurance enterprises.

Financial Statement Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future, as more information becomes known which could impact the amounts reported and disclosed herein.

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

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



Felecia Itson
Account Coordinator

NOTES TO FINANCIAL STATEMENTS

Note B: Summary of Significant Accounting Policies, continued

Investments

Investment securities are classified upon acquisition as held-to-maturity, trading or available-for-sale. Currently, all of the Fund's investments are classified as available-for-sale securities. Available-for-sale securities are those securities that would be available to be sold in the future in response to liquidity needs, changes in market interest rates and asset-liability management strategies. Available-for-sale securities are reported at fair values, with unrealized gains and losses, excluding certain securities with derivatives as discussed subsequently, excluded from earnings and reported as a separate component of members' equity, in accumulated other comprehensive income, net of tax. Fair values of bonds and equity securities are determined on the basis of dealer or market quotations or comparable securities on which quotations are available. Amortization of premiums and accretion of discounts are recorded using a method that approximates a level yield. The specific-identification method is used to determine the cost of securities.

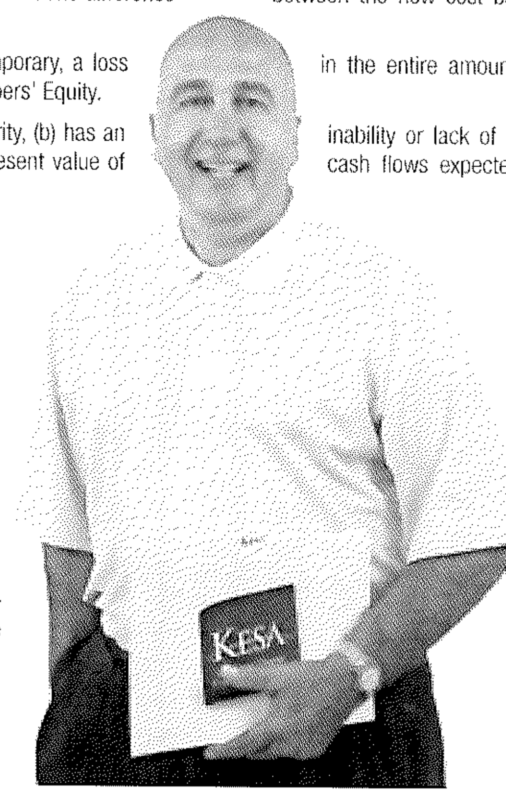
Other-Than-Temporary Impairment of Investments

An investment is considered impaired when the fair value of the investment is less than its cost or amortized cost. When an investment is impaired, the Fund must make a determination as to whether the impairment is other-than-temporary (OTTI), and if this review suggests such decline is other-than-temporary, the carrying value is reduced to its fair value through an adjustment to earnings. Some of the factors considered in identifying OTTI include: (1) the likelihood of the recoverability of principal and interest for bonds (i.e., whether there is a credit loss) or cost for equity securities; (2) the length of time and extent to which the fair value has been less than amortized cost for bonds or cost for equity securities; and (3) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

An other-than-temporary impairment is considered to have occurred if it is probable that the Fund will be unable to collect all amounts due according to the contractual terms of the security or intends to sell a security prior to its maturity at an amount below its carrying value. When a decline in the fair value of a bond is determined to be other-than-temporary, an impairment loss is recognized for the entire difference between the security's carrying value and its fair value at the balance sheet date. The fair value of the bond on the date of OTTI becomes the new cost basis of the bond, and the new cost basis is not adjusted for any subsequent recoveries in fair value. The difference between the new cost basis and the expected cash flows is accreted to net investment gain over the remaining expected life of the bond.

With respect to an investment in an equity security, if the decline in fair value is determined to be other-than-temporary, a loss in the entire amount of the impairment is reflected in net realized capital gains in the Statements of Comprehensive Income and Changes in Members' Equity.

For investments in impaired loan-backed or structured securities, OTTI occurs if the Fund (a) intends to sell the security, (b) has an inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (c) the present value of cash flows expected to be collected is less than amortized cost basis of the security.



Michael Miller
Marketing Representative

NOTES TO FINANCIAL STATEMENTS

Note B: Summary of Significant Accounting Policies, continued

Other-Than-Temporary Impairment of Investments

If the Fund intends to sell the security, or does not have the intent and ability to retain the security for a period of time sufficient to recover the amortized cost basis, a loss in the entire amount of the difference between the security's carrying value and its fair value at the balance sheet date is reflected in net investment gain in the Statements of Comprehensive Income and Changes in Members' Equity.

If the Fund determines that it is probable it will be unable to collect all amounts or the present value of cash flows expected to be collected is less than the amortized cost basis of the security and the Fund has no intent to sell the debt security and has the intent and ability to hold, a credit loss is recognized in net investment gain in earnings to the extent that the present value of expected cash flows is less than the amortized cost basis; any difference between fair value and the new amortized cost basis (net of the credit loss) is reflected as an unrealized loss.

Upon recognizing an OTTI, the new cost basis of the security is the previous amortized cost basis less the OTTI recognized in net investment gain. The new cost basis is not adjusted for any subsequent recoveries in fair value; however, the difference between the new cost basis and the expected cash flows is accreted to net investment gain over the remaining expected life of the investment.

The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. The Company determines the credit loss component of loan-backed investments by utilizing discounted cash flow modeling to determine the present value of the security and comparing the present value with the amortized cost of the security. The significant inputs used to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security including default rates and credit ratings. Prepayment assumptions for loan-backed securities were obtained from broker confirmations and prospectuses, custodial information or internal estimates.

NOTES TO FINANCIAL STATEMENTS

Note B: Summary of Significant Accounting Policies, continued

Derivative Instruments

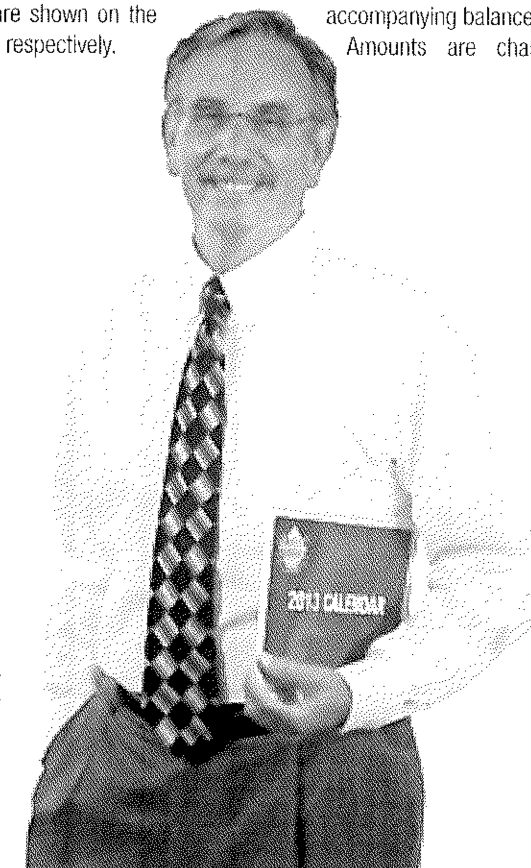
GAAP requires that every derivative instrument be recorded on the accompanying balance sheets as an asset or liability measured at its fair value and that changes in the derivative's fair value will be recognized currently in earnings unless specific hedge accounting criteria are met. The Fund invests in derivative instruments as part of the overall investment strategy to diversify its portfolio. A limited number of the Fund's investments are defined as derivatives under GAAP. These investments are considered embedded derivative instruments and have not been designated as hedges; accordingly, the changes in fair values are recorded through the realized capital gains and losses in earnings. See Note C for further detail regarding derivative instruments.

Cash and Short-Term Investments

Cash and short-term investments in the financial statements include cash on hand, cash in bank, money market accounts, and U.S. Treasury notes with a maturity of three months or less. The Fund maintains its cash balances at one financial institution. The Federal Deposit Insurance Corporation secures accounts up to $250,000. Management monitors balances in excess of insured limits and believes they do not represent a significant credit risk to the Fund.

Agents' Balances or Uncollected Premiums

The Fund includes in agents' balances or uncollected premiums the unpaid balance of premium due from members that are payable in full on the effective date of the insurance policy or in installments under the Fund's installment payment plan. Agents' balances or uncollected premiums are shown on the accompanying balance sheets net of an allowance for doubtful accounts of approximately $251,332 and $338,500 at December 31, 2012 and 2011, respectively. Amounts are charged to the allowance at the point they are determined to be uncollectible.



Mike Kleier
Member Relations Manager

NOTES TO FINANCIAL STATEMENTS

Note B: Summary of Significant Accounting Policies, continued

Premiums Earned, Advance Premiums and Unearned Premiums

Premiums are based on the total covered payroll of participating employers earned on a pro-rata basis over the policy coverage period, net of ceded reinsurance. Unearned premiums are calculated on a pro-rata basis and represent the portion of premiums written that is applicable to the unexpired risk of policies in-force. In the event that total expected future losses and expenses exceed unearned premiums at the balance sheet date, the Fund records a premium deficiency reserve through a charge to current operations. The Fund considers anticipated investment income in determining if a premium deficiency exists. There was no premium deficiency at December 31, 2012 and 2011.

Earned premiums do not include Kentucky Special Fund tax assessments which are invoiced and collected along with insurance premiums. These assessments are remitted quarterly to the Kentucky Workers' Compensation Funding Commission. Advance premiums represent the portion of premiums received prior to a policy's effective date.

Deferred Policy Acquisition Costs

Commissions and other costs of acquiring insurance that vary with and are directly related to successful policy's are deferred under GAAP and are amortized over future periods as the related premiums on underwriting policies are earned, generally equal to or less than one year.

Unpaid Loss and Loss Adjustment Expenses

The liability for loss and loss adjustment expenses includes unpaid claims and expenses associated with settling claims, including legal fees. The liability for unpaid loss and loss adjustment expenses is based on claims adjusters' evaluations of individual claims, management's evaluation, and actuarial review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The liability represents the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Any adjustments resulting from the settlement of losses will be reflected in earnings at the time the adjustments are determined. The Company discounts the liability based on discount factors established by the Internal Revenue Service.

Katie Ising
New Business Coordinator

NOTES TO FINANCIAL STATEMENTS

Note B: Summary of Significant Accounting Policies, continued

Reinsurance

Reinsurance recoverables (including amounts related to claims incurred but not reported) and prepaid reinsurance premiums are reported as assets. Estimated reinsurance recoverables are recognized in a manner consistent with the liabilities relating to the underlying reinsurance agreements.

Reinsurance does not discharge the Fund from its primary liability to policyholders and claimants and, to the extent that a reinsurer is unable to meet its obligations, the Fund would be liable. The Fund reviews and monitors the financial condition of prospective reinsurers, in addition to its existing reinsurers.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for in amounts sufficient to allocate the cost of depreciable assets to operations over estimated service lives ranging from three to seven years, utilizing the straight-line method. Accumulated depreciation was $4,909,665 and $4,534,001 as of December 31, 2012 and 2011, respectively. Depreciation expense was $382,141 and $314,346 during 2012 and 2011, respectively.

Advertising

Advertising costs are expensed as incurred. Total advertising expenses included in underwriting expenses are $184,009 and $173,240 for 2012 and 2011, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are provided for cumulative temporary differences between the balances of assets and liabilities determined under GAAP and balances determined for tax reporting purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Fund is exempt from state income taxes.

The Fund accounts for uncertain tax positions in accordance with the income tax accounting guidance. The Fund has analyzed filing positions in the federal jurisdiction where it is required to file tax returns as well as the open tax years in this jurisdiction. The Fund believes that its federal income tax, filing positions, and deductions would be sustained upon audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain tax positions have been recorded, nor have any federal income tax related interest or penalties been incurred for the years ended December 31, 2012 and 2011. Tax years 2009 through the present are subject to examination by the Internal Revenue Service.

Comprehensive Income

In addition to net income, comprehensive income includes unrealized gains and losses on certain investment securities, net of tax.

Subsequent Events

The Fund has evaluated subsequent events through April 19, 2013, the date on which these financial statements were available to be issued.

Note C: Investments

Investments, carried in the accompanying balance sheets at estimated fair value, consist of the following as of December 31, 2012:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Realized Gains on Derivatives	Realized Losses on Derivatives	Fair Value
U.S. government and agency securities	$33,722,448	$1,256,203	$7,510	$ -	$ -	$34,971,141
Corporate securities	22,955,735	1,771,366	1,776	-	-	24,725,325
Municipal securities	1,610,029	226,291	-	-	-	1,836,320
Convertible bonds	10,570,732	433,467	15,478	345,309	712,177	10,621,853
Asset backed securities	2,685,651	161,123	-	-	-	2,846,774
Commercial mortgage backed securities	23,463,166	1,452,328	-	-	-	24,915,494
Residential mortgage backed securities	41,408,080	2,132,131	72,824	-	-	43,467,387
Total bonds	136,415,841	7,432,909	97,588	345,309	712,177	143,384,294
Mutual funds	2,373,679	213,228	8,669	-	-	2,578,238
Equity securities	17,843,445	4,396,071	339,565	108,457	88,739	21,919,669
Total equity securities	20,217,124	4,609,299	348,234	108,457	88,739	24,497,907
Total Investments	$156,632,96	$12,042,208	$445,822	$453,766	$800,916	$167,882,201

Included in the above table in U.S. government and agency securities are investments with a carrying value of $10,985,182 that are reported as short-term investments on the accompanying balance sheets as of December 31, 2012.

Investments, carried in the accompanying balance sheets at estimated fair value, consist of the following as of December 31, 2011:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Realized Gains on Derivatives	Realized Losses on Derivatives	Fair Value
U.S. government and agency securities	$31,277,657	$1,562,954	$ -	$ -	$ -	$32,840,611
Corporate securities	21,413,880	1,760,675	15,172	-	-	23,159,383
Municipal securities	4,949,310	265,068	-	-	-	5,214,378
Convertible bonds	12,058,985	499,227	334,375	616,320	463,715	12,376,442
Asset backed securities	2,296,217	139,949	-	-	-	2,436,166
Commercial mortgage backed securities	30,370,584	1,940,040	408	-	-	32,310,216
Residential mortgage backed securities	32,327,390	2,185,929	152,030	-	-	34,361,289
Total bonds	134,694,023	8,353,842	501,985	616,320	463,715	142,698,485
Mutual funds	2,305,490	9,901	177,713	-	-	2,137,678
Equity securities	16,556,960	3,258,984	526,586	164,209	74,840	19,378,727
Total equity securities	18,862,450	3,268,885	704,299	164,209	74,840	21,516,405
Total Investments	$153,556,473	$11,622,727	$1,206,284	$780,529	$538,555	$164,214,890

NOTES TO FINANCIAL STATEMENTS

Note C: Investments, continued

Proceeds from the sale, maturity and paydown of investments in bonds during 2012 were $53,156,856; gross gains of $2,142,354 and gross losses of $288,103 were realized on those sales. Proceeds from the sale, maturity and paydown of investments in bonds during 2011 were $37,702,819; gross gains of $879,679 and gross losses of $278,195 were realized on those sales.

Proceeds from the sale of equity securities during 2012 were $6,394,777; gross gains of $1,119,593 and gross losses of $643,164 were realized on those sales. Proceeds from the sale of common and preferred stock during 2011 were $9,282,115; gross gains of $1,535,831 and gross losses of $738,660 were realized on those sales.

The Fund invests in convertible bonds and preferred stocks, the convertible features of which are accounted for as derivative instruments. These securities are not held for hedging purposes, but instead are incorporated into the investment portfolio to gain exposure to a market that is affected by both bond and equity movements.

The fair values of the convertible features of bonds and preferred stocks included in bonds and equities in the December 31, 2012 balance sheet are $1,743,889 and $597,593, respectively. The fair values of the convertible features of bonds and preferred stocks included in bonds and equities in the December 31, 2011 balance sheet are $2,032,903 and $658,919, respectively. The mark-to-market impact of these derivatives on earnings, before tax, was a loss of $589,124 during the year ended December 31, 2012, and a loss of $487,726 during the year ended December 31, 2011.

The amortized cost and estimated fair value of investments in bonds at December 31, 2012, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or repayment penalties.

Amortized	Cost	Fair Value
Maturity:		
In 2013	$20,541,007	$20,630,807
In 2014-2017	19,592,421	20,270,768
In 2018-2022	24,103,703	26,166,472
Due after 2022	4,621,813	5,086,592
Due after 2022	67,556,897	71,229,655
Total bonds	$136,415,841	$143,384,294

Teri Ralston
Web Marketing Specialist

NOTES TO FINANCIAL STATEMENTS

Note C: Investments, continued

The gross unrealized gains and losses on, and the cost and fair value of equities, segregated by industry type, are summarized as follows as of December 31, 2012:

	Cost	Unrealized Gains	Unrealized Losses	Realized Gains on Derivatives	Realized Losses on Derivatives	Fair Value
American depository receipts	$1,084,449	$105,020	$43,148	$ -	$ -	$1,146,321
Consumer discretionary	1,913,033	557,358	52,550	-	-	2,417,841
Consumer servies	343,348	159	23,805	-	-	319,702
Consumer staples	1,021,642	115,597	6,684	-	-	1,130,555
Energy	1,120,887	412,372	7,172	-	-	1,526,087
Financials	1,623,534	496,004	7,444	-	-	2,112,094
Health care	2,212,073	442,638	38,128	-	-	2,616,583
Industrials	2,949,529	1,033,640	74,885	-	-	3,908,284
Information technology	2,759,327	626,679	64,999	-	-	3,321,007
Materials	159,653	35,938	-	-	-	195,591
Telecommunications	239,601	90,754	-	-	-	330,355
Transportaion	304,390	-	2,611	-	-	301,779
Miscellaneous	95,180	-	1,077	-	-	94,103
Preferred stock	2,016,799	479,912	17,062	108,457	88,739	2,499,367
Mutual funds	2,373,679	213,228	8,669	-	-	2,578,238
Totals	$20,217,124	$4,609,299	$348,234	$108,457	$88,739	$24,497,907

The gross unrealized gains and losses on, and the cost and fair value of equities, segregated by industry type, are summarized as follows as of December 31, 2011:

	Cost	Unrealized Gains	Unrealized Losses	Realized Gains on Derivatives	Realized Losses on Derivatives	Fair Value
American depository receipts	$935,962	$3,348	$137,207	$ -	$ -	$802,103
Consumer discretionary	1,871,494	579,168	12,504	-	-	2,438,158
Consumer staples	846,245	90,823	-	-	-	937,068
Energy	1,449,715	377,806	54,265	-	-	1,773,256
Financials	1,471,254	266,754	1,507	-	-	1,736,501
Health care	2,021,181	235,772	78,623	-	-	2,178,330
Industrials	3,214,139	761,876	120,245	-	-	3,855,770
Information technology	2,333,808	605,748	48,933	-	-	2,890,623
Materials	196,139	43,926	10,929	-	-	229,136
Telecommunications	239,601	56,751	-	-	-	296,352
Preferred stock	1,977,422	237,012	62,373	164,209	74,840	2,241,430
Mutual funds	2,305,490	9,901	177,713	-	-	2,137,678
Totals	$18,862,450	$3,268,885	$704,299	$164,209	$74,840	$21,516,405

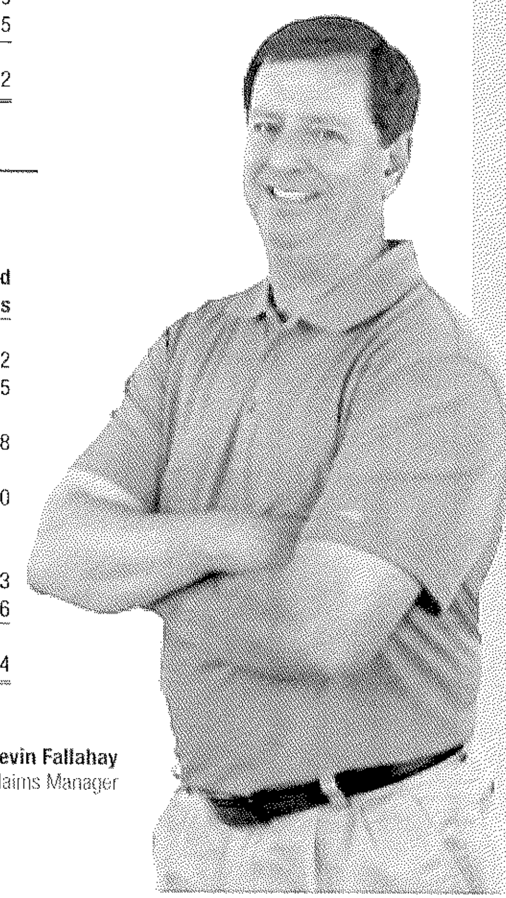
NOTES TO FINANCIAL STATEMENTS

Note C: Investments, continued

At December 31, 2012 and 2011, unrealized losses on bonds and equity securities were as follows:

At December 31, 2012:	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds						
U.S. government and agency securities	$3,065,470	$7,510	$-	$-	$3,065,470	$7,510
Corporate securities	301,746	1,776	-	-	301,746	1,776
Convertible bonds	205,114	4,066	771,855	11,412	976,969	15,478
Residential mortgage backed securities	5,979,697	13,766	338,795	59,058	6,318,492	72,824
Equity:						
Mutual funds	20,479	1,301	23,440	7,368	43,919	8,669
Equity securities	2,907,622	167,501	1,053,694	172,064	3,961,316	339,565
Total	$12,480,128	$195,920	$2,187,784	$249,902	$14,667,912	$445,822

At December 31, 2011:	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds						
Corporate securities	$385,996	$15,172	$-	$-	$385,996	$15,172
Convertible bonds	4,748,480	251,178	476,250	83,197	5,224,730	334,375
Commercial mortgage backed securities	179,942	408	-	-	179,942	408
Residential mortgage backed securities	-	-	290,056	152,030	290,056	152,030
Equity:						
Mutual funds	2,071,842	171,430	9,637	6,283	2,081,479	177,713
Equity securities	4,138,337	439,236	340,688	87,350	4,479,025	526,586
Total	$11,524,597	$877,424	$1,116,631	$328,860	$12,641,228	$1,206,284



Kevin Fallahay
Claims Manager

NOTES TO FINANCIAL STATEMENTS

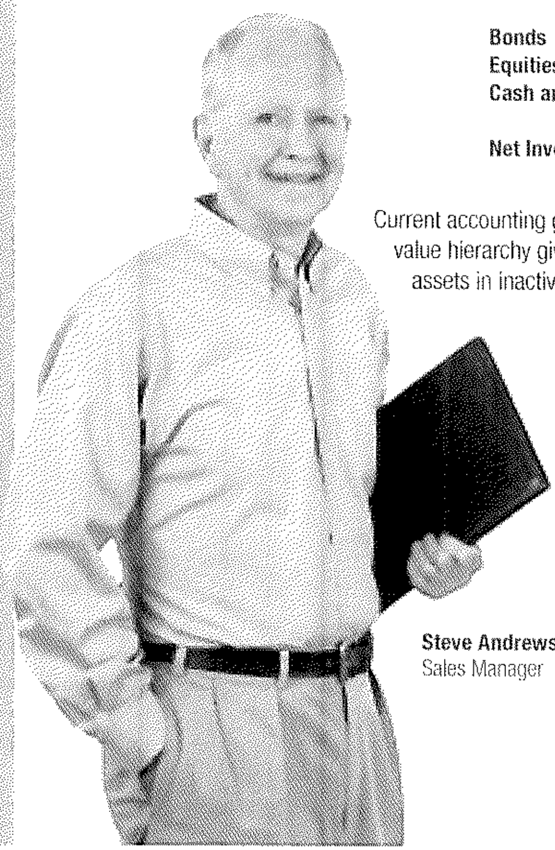
Note C: Investments, continued

Management evaluates securities for other-than-temporary impairments on at least a yearly basis and more frequently when economic or market concerns warrant such evaluation in the manner described in Note B.

These unrealized losses relate principally to current interest rates for similar types of securities. Bond fair values are subject to fluctuation based on, among other things, changes in interest rates. In a rising rate environment, bond values may experience a drop in fair value which is normally recovered as the bond approaches its maturity date. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. During 2012, the Fund did not recognize any OTTI charges. During 2011, the Fund recognized $170,600 in OTTI charges on two convertible bonds from the same issuer.

As required by the Kentucky Department of Insurance, the Fund has pledged securities with a fair value of $15,272,433 and $15,237,263 as collateral for the payment of workers' compensation claims as of December 31, 2012 and 2011, respectively. The amount pledged is to remain under the joint control of the Fund and the Kentucky Department of Insurance for the exclusive payment of any liability for workers' compensation claims reported through December 31, 2012.

Major categories of the Fund's 2012 and 2011 net investment income are summarized as follows:



	2012	2011
Bonds	$4,041,226	$4,575,958
Equities	594,726	498,111
Cash and short-term investments	30,435	41,256
Net Investment Income	$4,666,387	$5,115,325

Current accounting guidance establishes a three-level hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1), the next priority to quoted prices for identical assets in inactive markets or similar assets in active markets (Level 2) and the lowest priority to unobservable inputs (Level 3).

Steve Andrews
Sales Manager

NOTES TO FINANCIAL STATEMENTS

Note C: Investments, continued

The following tables presents the Fund's investment securities within the fair value hierarchy, indicating the objectivity and reliability of the inputs used to value those securities at December 31, 2012 and 2011.

At December 31, 2012	Level 1	Level 2	Level 3	Fair Value
Assets at Fair Value:				
U.S. government and agency securities	$29,431,214	$5,539,927	$ -	$34,971,141
Corporate securities	-	24,725,325	-	24,725,325
Municipal securities	-	1,836,320	-	1,836,320
Convertible bonds	-	10,621,853	-	10,621,853
Asset backed securities	-	2,846,774	-	2,846,774
Commercial mortgage backed securities	-	24,915,494	-	24,915,494
Residential mortgage backed securities	-	43,467,387	-	43,467,387
Mutual funds	2,578,238	-	-	2,578,238
Equity securities	19,420,304	2,499,36	-	21,919,669
Total assets at fair value	$51,429,756	$116,452,445	$ -	$ 167,882,201

At December 31, 2011	Level 1	Level 2	Level 3	Fair Value
Assets at Fair Value:				
U.S. government and agency securities	$26,272,502	$6,568,110	$ -	$32,840,612
Corporate securities	-	23,163,304	-	23,163,304
Municipal securities	-	5,214,379	-	5,214,379
Convertible bonds	-	12,376,773	-	12,376,773
Asset backed securities	-	2,436,166	-	2,436,166
Commercial mortgage backed securities	-	32,310,216	-	32,310,216
Residential mortgage backed securities	-	34,361,288	-	34,361,288
Mutual funds	2,137,678	-	-	2,137,678
Equity securities	17,137,299	2,237,175	-	19,374,474
Total assets at fair value	$45,547,479	$118,667,411	$ -	$ 164,214,890

At the end of each reporting period, the Fund evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. No such transfers were made during 2011 or 2010. The Fund did not have any investments classified as Level 3 investments as of December 31, 2011 or 2010, and there were no transfers into or out of Level 3 during each year.

NOTES TO FINANCIAL STATEMENTS

Note D: Unpaid Loss and Loss Adjustment Expenses

Activity in the liability for unpaid loss and loss adjustment expenses, before discounting, is summarized as follows:

	2012	2011
Balance, January 1	$142,005,652	$137,955,214
Less reinsurance recoverable	(5,627,089)	(5,620,842)
Net balance at January 1	136,378,563	132,334,372
Add provisions for claims occurring in:		
Current year	45,220,504	39,212,744
Prior years	(7,393,013)	(1,593,031)
Total incurred during the year	37,827,491	37,619,713
Deduct payments for claims, net of reinsurance		
Current year	11,812,283	11,036,956
Prior years	21,410,424	22,538,566
Total paid	33,222,707	33,575,522
Net balance, December 31	140,983,347	136,378,563
Plus reinsurance recoverable	5,991,292	5,627,089
Balance, December 31	$146,974,639	$142,005,652

The reconciliation above shows favorable development of $7,393,013 emerged during 2012 in the reserves for unpaid losses and LAE recorded at December 31, 2011, as a result of re-estimations. This favorable development is related to most accident years but weighted more toward the recent accident years. The reconciliation above shows favorable development of $1,593,031 emerged during 2011 in the reserves for unpaid losses and LAE at December 31, 2010. Decreases of this nature occur as the result of claim settlements during the current year, and additional information received regarding individual claims causes changes from the original estimates of the cost of these claims.

The aggregate liability has been discounted using discount factors over the anticipated payment periods to reflect the time value of money. At both December 31, 2012 and 2011, the Fund discounted its aggregate liability using an interest rate of 2.89% and 3.46%, respectively. At December 31, 2012 and 2011, loss and loss adjustment expense reserves, net of reinsurance, have been discounted by approximately $23,373,000 and $23,046,000, respectively. Of the discount, approximately $5,069,000 and $4,208,000 relate to current year incurred losses for 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS

Note E: Federal Income Taxes

The Fund files its federal income tax return as "an insurance company other than a life insurance company" under Section 831 of the Internal Revenue Code. In lieu of state income taxes, state regulators require that group self-insurers pay premium-based taxes in support of the Commonwealth of Kentucky Special Fund.

As described in Note B, deferred income taxes are provided for temporary differences resulting from the recognition of income and expenses in different periods for financial statement and income tax purposes. GAAP requires an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax bases of assets and liabilities is determined annually. Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will more likely than not be realized. There are no valuation allowances against deferred tax assets at December 31, 2012 or 2011.

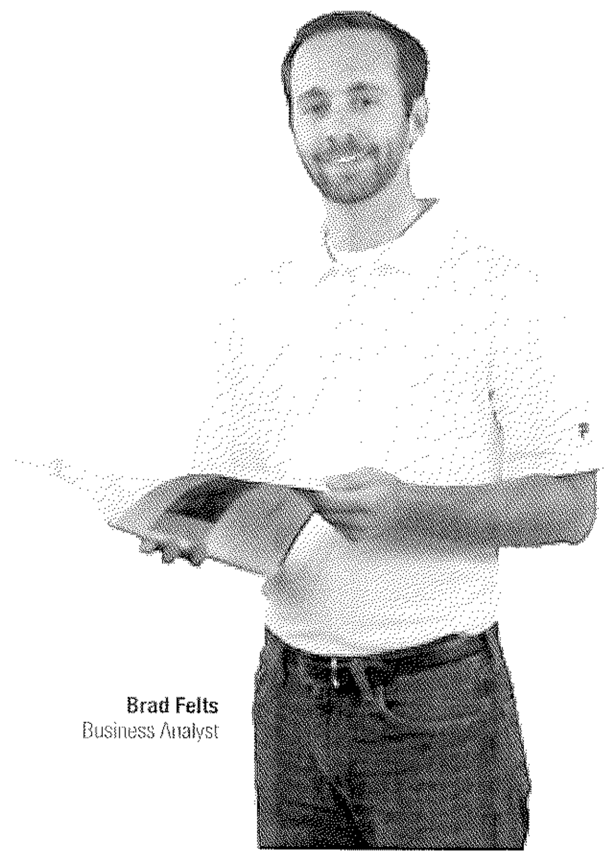
The difference between federal income taxes computed at 34%, the statutory rate, and federal income tax expense is due primarily to the Fund's investments in tax exempt securities, allowed dividend received deduction and non-deductible expenses.

The net income tax expense of $1,021,203 for the year ended December 31, 2012 is comprised of a current income tax expense of $967,418 and a deferred income tax expense of $53,785. The net income tax expense for the year ended December 31, 2011 of $954,189 is comprised of a current income tax expense of $21,224 and a deferred income tax expense of $932,965.

Significant components of the deferred tax assets and deferred tax liabilities at December 31 are presented below:

	2012	2011
Deferred tax assets:		
Unearned premiums	$1,611,430	$1,375,293
Allowance for doubtful accounts	85,453	115,073
Net operating loss carryforward	-	173,863
AMT carryforward	23,462	-
Total deferred tax assets	1,720,345	1,664,229
Deferred tax liabilities:		
Unrealized capital gains	3,942,773	3,541,591
Deferred acquisition costs	925,949	864,860
Change in tax method	170,037	255,055
Other	209,999	181,072
Total deferred tax liabilities	5,248,758	4,842,578
Net deferred tax liability	$(3,528,413)	$(3,178,349)

As of December 31 2012, the Fund does not have any unused operating loss carry-forwards available to offset future taxable income.



Brad Felts
Business Analyst

NOTES TO FINANCIAL STATEMENTS

Note F: Reinsurance

The Fund uses reinsurance to limit exposure to large losses. Reinsurance permits the recovery of a portion of claims from reinsurers, although it does not discharge the Fund from the primary liability as direct insurer.

For the years ended December 31, 2012 and 2011, the Fund carried reinsurance, which provided statutory limits in excess of $1,000,000 per occurrence. Aggregate reinsurance provides coverage if the total losses of the Fund exceed an established loss fund. The Fund has not purchased aggregate insurance since 2002 and is not required to carry aggregate coverage or obtain a waiver as long as members' equity is equal to 30% or more of earned premiums.

Earned reinsurance premiums were $5,463,978 and $3,576,480 for the years ended December 31, 2012 and 2011, respectively. Reinsurance recoveries on paid claims during 2012 and 2011 were $216,851 and $195,473, respectively.

Note G: Deferred Policy Acquisition Costs

Activity in the reserve for deferred policy acquisition costs for the years ended December 31 was as follows:

	2012	2011
Balance, as of January 1	$2,543,706	$2,266,298
Policy acquisition costs deferred	6,238,428	5,880,510
Amortization charged to income	(6,058,756)	(5,603,102)
Balance, as of December 31	$2,723,378	$2,543,706

Note H: Retirement Plan

The Fund has a 401(k) savings plan which allows eligible employees to contribute up to the maximum amount allowed by the Internal Revenue Service. The Fund will match one hundred percent of each participant's elective contribution up to four percent of their compensation. The Fund's matching contribution was $116,686 and $113,701 in 2012 and 2011, respectively.

Nancy Waddle
Receptionist

NOTES TO FINANCIAL STATEMENTS

Note I: Commitments

The Fund leases various equipment and office space under operating leases. Total rental expense in 2012 and 2011 was $533,393 and $528,186, respectively.

The following schedule details future minimum lease payments as of December 31, 2012 for operating leases with initial or remaining lease terms in excess of one year.

	Rental Cost
2013	$528,702
2014	402,156
2015	328,145
2016	84,857
	$1,343,860

Note J: Concentration of Credit Risk

The Fund evaluates the financial condition of its excess insurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from excess insurer insolvency. At December 31, 2012 and 2011, reinsurance recoverables with carrying values of $6,305,351 and $5,724,297, respectively, were associated with multiple excess insurers with a rating of "A" or better by A.M. Best Company. The Fund maintains no collateral or other security for reinsurance recoverable subject to credit risk.

Note K: Contingencies

The Fund is involved in various lawsuits on behalf of members involving compensatory insurance claims. Estimates of these potential liabilities have been taken into consideration in determining the reserve for reported claims, and any payments resulting from these claims will be charged to such reserve (see Note D).

ABOUT KESA

KESA is a not-for-profit fund

Unlike conventional insurance companies with ambitious profit goals, KESA is a not-for-profit fund. If we collect more premiums than needed for administrative and claims costs, we return the unused premiums back to our members by lowering premiums, increasing members' equity, or paying dividends.

Some companies have shied away from workers' comp funds because of a fund's right to assess additional premiums. KESA works diligently every day to negate any possibility of an assessment. First and foremost, KESA reserves properly for all claims activity, meaning we set aside an appropriate amount of funds to cover claims to their ultimate cost. Also, KESA properly evaluates and prices each account and we educate member companies in safety and loss prevention. KESA also uses a portion of members' premiums to purchase excess insurance, which is insurance provided by another carrier that assumes a part of the financial liability of catastrophic claims. KESA also strategically invests the members' premium dollars, which generates investment income that is used to offset expenses.

KESA covers Kentucky

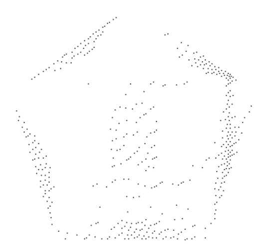
KESA's only objective is to write workers' comp coverage in the Commonwealth of Kentucky. That means, like you, we live here and work here. We've traveled the state many times over to handle claims, offer safety and loss prevention seminars, and meet with our members and agents. KESA is in its 32nd year of writing coverage in Kentucky, which means we know the key people in workers' comp - the doctors and other medical providers, lawyers, and administrative law judges. That means KESA knows the right person to call to get you the help you need fast. KESA knows Kentucky.

KESA is financially stable

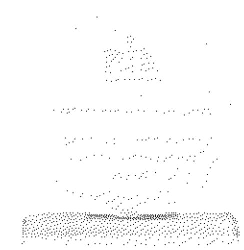
While other workers' comp providers have come and gone, KESA has stood strong for over 30 years. Our longevity stems from our commitment to be a fiscally responsible fund. KESA is regulated by the Kentucky Department of Insurance, which performs periodic comprehensive audits. We are required to submit actuarial reporting as well as financial reporting annually to assess our strength and integrity as a self-insured fund. In addition to state regulation, a member-elected Board of Trustees oversees KESA and closely monitors the fund's activities.

KESA's formula is simple. We keep our administrative expenses in check and make optimum use of each premium dollar through strategic investments. From our efficient in-house claims handling to our tight accounting controls to the way we invest our members' funds, KESA is a watchful guardian of our members' money. KESA delivers the strong financial performance our members can trust.

Best Places to Work in Kentucky 2013



Top Workplaces 2012 and 2011



Professional Insurance Agents Company Award of Excellence 2013 and 2010

KESA MANAGEMENT TEAM

Gregory L. Buie
Chief Executive Officer

Stephen A. Andrews
Sales Manager

Page Barrow, AU
Underwriting Manager

Kitty L. Baumgart
Chief Financial Officer

Linda K. Davis
Human Resources/Office Manager

Vi Durr
Underwriter/Client Relations Manager

Melinda Ellingsworth
Chief Marketing Officer

Kevin Fallahay
Claims Manager

Mike Kleier
Member Relations Manager

Rubyanne O'Bryan
Systems Administrator

2012-2013 KESA BOARD OF TRUSTEES

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Roswell, GA

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KESA

Workers' Comp

200 Executive Park, Louisville, KY 40207

1-800-FOR-KESA

502-894-0066 (FAX)

www.kesa.org

/KESAworkerscomp

Checklist for Custodial Bids

Basic Bid Package:

1. Signed copy of bid
2. Notorized copy of affidavit
3. Equal Opportunity Agreement
4. Workforce Analysis Form
5. Pricing Sheet

Supplemental Forms to be Returned with Bid:

5. Evidence of Insurability
6. Contractor Cleaning Products
7. Contractor Experience & References

Lexington-Fayette Urban County Government
DEPARTMENT OF FINANCE & ADMINISTRATION

Jim Gray
Mayor

William O'Mara
Commissioner

ADDENDUM #1

Bid Number: **31-2014**

Date: February 25, 2014

Subject: **Custodial Services – Coroner's Office**

Please address inquiries to:
Sondra Stone, Buyer
(859) 258-3324

TO ALL PROSPECTIVE BIDDERS:

1) Hours for cleaning will be 7:00 am – 5:00 pm.

2) Pre-bid sign-in sheet attached.

Todd Slatin, Director
Division of Central Purchasing

All other terms and conditions of the Bid and specifications are unchanged.
This letter should be signed, attached to and become a part of your Bid.

COMPANY NAME: DellaValle Management Inc.

ADDRESS: P.O. Box #910888 - Lexington, KY 40591

SIGNATURE OF BIDDER: