Kentucky Associated General Contractors Self Insurers' Fund

Financial Statements

Years Ended December 31, 2017 and 2016

Kentucky Associated General Contractors Self Insurers' Fund

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Years Ended December 31, 2017 and 2016

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Independent Auditor's Report

To the Board of Trustees
Kentucky Associated General Contractors Self Insurers' Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Associated General Contractors Self Insurers' Fund (the "Fund"), which comprise the balance sheet as of December 31, 2017, and the related statements of income and comprehensive income, changes in fund balance, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

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Indiana
Ohio

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Associated General Contractors Self Insurers' Fund as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Kentucky Associated General Contractors Self Insurers' Fund for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on April 10, 2017.

Uncertainties Regarding the Liability for Estimated Claims

As discussed in Note B in the accompanying financial statements, the estimated liability for claims reflected in the accompanying financial statements is based upon an evaluation by an independent actuary. Although management believes that this estimate is reasonable, because of inherent uncertainties in estimating this liability, it is reasonably possible that changes in such estimates may occur and can be material in relation to the financial statements as a whole. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the cumulative incurred losses and loss-adjustment expenses, cumulative paid losses and loss-adjustment expenses, and average annual percentage payout of incurred claims information for the years prior to 2017 in Note E be presented to supplement the basic financial statements (the "required supplementary information"). Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

MCM CPAs & Advisors LLP

Louisville, Kentucky
April 19, 2018

Kentucky Associated General Contractors Self Insurers' Fund
Balance Sheets
December 31. 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 24,276,038	$ 28,291,100
Investments - at fair value	354,688,349	327,009,991
Receivables:		
Premiums	9,681,959	10,016,261
Aggregate excess insurance	435,524	439,094
Specific excess insurance	24,103,879	26,249,380
Accrued interest	1,432,687	1,830,152
Income taxes receivable	13,399,571	2,723,187
Prepaid reinsurance	1,264,000	1,150,300
Total assets	$ 429,282,007	$ 397,709,465
Liabilities and Fund Balance		
Liabilities:		
Estimated liability for claims:		
Incurred and reported	$ 131,805,728	$ 140,865,452
Incurred but not reported and loss adjustment expense	131,828,135	117,608,488
Unallocated loss-adjustment expense	4,111,995	4,124,616
Total estimated liability for claims	267,745,858	262,598,556
Payables and accrued expenses:		
Premiums refundable	1,684,922	1,582,379
Service fee and other fees payable	4,655,017	4,816,336
Member deposits	10,058,331	10,222,189
Tax assessments collected on premiums	999,289	906,246
Deferred tax liability	18,099,717	8,288,764
Accrued member dividends	47,070,029	45,950,699
Total liabilities	350,313,163	334,365,169
Fund Balance:		
Retained earnings	50,542,156	43,524,071
Accumulated other comprehensive income net of income taxes	28,426,688	19,820,225
Total fund balance	78,968,844	63,344,296
Total liabilities and fund balance	$ 429,282,007	$ 397,709,465

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Income and Comprehensive Income
Years Ended December 31, 2017 and 2016

	2017	2016
Revenues		
Premiums earned	$ 61,886,746	$ 63,184,381
Net investment income	6,132,432	7,475,262
Net realized investment gains	114,512	786,019
Other	502,154	524,299
Total revenues	68,635,844	71,969,961
Expenses		
Claims incurred	38,578,768	40,771,976
Service fee	8,481,234	8,638,104
Commissions	6,190,682	6,305,186
Excess insurance premiums	1,344,996	1,152,000
Loss control	813,172	785,314
Premium audits	500,000	506,400
Other operating expenses	2,202,923	2,197,868
Total expenses	58,111,775	60,356,848
Income before dividends declared to members and income tax (benefit) expense	10,524,069	11,613,113
Dividends declared to members	8,400,000	8,860,000
Income before income tax (benefit) expense	2,124,069	2,753,113
Income tax (benefit) expense	(4,894,016)	568,047
Net income	7,018,085	2,185,066
Other comprehensive income - before tax unrealized gains on investments:		
Unrealized holding gains arising during the year	13,171,510	3,326,903
Reclassification adjustments for gains included in net income	(114,512)	(786,019)
Other comprehensive income before tax	13,056,998	2,540,884
Income tax expense relative to other comprehensive income, net	(4,450,535)	(863,900)
Other comprehensive income, net of tax	8,606,463	1,676,984
Comprehensive income	$ 15,624,548	$ 3,862,050

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Changes in Fund Balance
Years Ended December 31, 2017 and 2016

	Retained Earnings	Accumulated Other Comprehensive Income, net	Fund Balance
Balance at December 31, 2015	$ 41,339,005	$ 18,143,241	$ 59,482,246
Net income	2,185,066	-	2,185,066
Change in accumulated other comprehensive income - net of income taxes	-	1,676,984	1,676,984
Balance at December 31, 2016	43,524,071	19,820,225	63,344,296
Net income	7,018,085	-	7,018,085
Change in accumulated other comprehensive income - net of income taxes	-	8,606,463	8,606,463
Balance at December 31, 2017	$ 50,542,156	$ 28,426,688	$ 78,968,844

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Net income	$ 7,018,085	$ 2,185,066
Adjustments to reconcile net income to net cash provided by operating activities:		
Dividends declared to members	8,400,000	8,860,000
Gain on sale of investments	(114,512)	(786,019)
Deferred income taxes	5,377,368	210,602
Amortization of investment premiums and discounts, net	953,494	414,192
Changes in assets and liabilities:		
Receivables	2,880,838	(244,818)
Prepaid insurance	(113,700)	(128,500)
Income taxes receivable	(10,676,384)	(3,042,555)
Estimated liability for claims	5,147,302	7,829,373
Payables and accrued expenses	(58,776)	(120,261)
Member deposits	(163,858)	(274,169)
Tax assessments collected on premiums	93,043	(130,809)
Net cash provided by operating activities	18,742,900	14,772,102
Cash Flows from Investing Activities:		
Purchases of investments	(103,298,318)	(147,051,132)
Proceeds from maturities and sales of investments	87,821,026	145,139,941
Net cash used in investing activities	(15,477,292)	(1,911,191)
Cash Flows from Financing Activities:		
Payment of dividends to members	(7,280,670)	(7,355,353)
Net (decrease) increase in Cash and Cash Equivalents	(4,015,062)	5,505,558
Cash and Cash Equivalents - Beginning of Year	28,291,100	22,785,542
Cash and Cash Equivalents - End of Year	$ 24,276,038	$ 28,291,100
Supplemental cash flow information:		
Cash paid for income taxes	$ 405,000	$ 3,400,000
Noncash activities - accumulated accrued member dividends unpaid	$ 47,070,029	$ 45,950,699

See accompanying notes.

Note A - Nature of Organization and Operations

The purpose of the Kentucky Associated General Contractors Self Insurers' Fund is to meet and fulfill employer member obligations and liabilities under the Kentucky Workers' Compensation Act, pursuant to KRS Section 342.350. The operations of the Fund are covered under a Trust Agreement. Insurance coverage is provided to members of construction industry associations in Kentucky. Claims administration and management services are provided by Ladegast & Heffner Claims Service, Inc. under a contract that extends through December 31, 2021. The service fee is based on a percentage of premiums earned.

Note B - Significant Accounting Policies

1. Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Accounting Standards Codification (ASC) as produced by the Financial Accounting Standards Board (FASB) is the sole source of authoritative GAAP.

2. Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

   The most significant of these estimates is the estimated liability for claims, including the estimated liability for incurred but not reported claims. The Fund continually updates its estimates as additional data becomes available and adjusts the financial statements as deemed necessary. Although recorded reserves for losses and loss adjustment expenses are supported by actuarial computations, and other supportive data, the estimates are ultimately based on management's expectations of future events. Other estimates such as investment valuation, the collectability of reinsurance balances, and recoverability of deferred tax assets are regularly monitored, evaluated and adjusted.

3. Cash and Cash Equivalents: Cash equivalents include money market funds and certain investments with maturities of three months or less, cash and cash equivalents stated at cost, which approximates fair value. The Fund's bank balances are held at a single financial institution, and at times, balances may exceed federally insured amounts.

4. Investments: Investments are classified as available-for-sale securities and are reported at fair value. Unrealized holding gains and losses, net of income taxes, are reported as accumulated other comprehensive income, a separate component of fund balance, until realized. The specific identification method is used to determine cost to compute realized gains or losses. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Observable inputs or unobservable inputs, defined by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, may be used in the calculation of fair value. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Note B - Significant Accounting Policies (Continued)

4. Investments (Continued): The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly. Level 2 securities are valued using third-party pricing services. These services may use, for example, model-based pricing models that utilize observable market data as inputs. Broker-dealer bids or quotes of securities with similar characteristics may also be used. There were no transfers between Level 1 and Level 2 securities in the current year;

Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

In accordance with ASC Topic 820, assets measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Investment securities-available for sale:				
U.S. Treasury notes and bonds	$ 145,145,634	$ -	$ -	$ 145,145,634
Domestic common stocks:				
Technology common stocks	15,378,488	-	-	15,378,488
Basic material common stocks	9,148,621	-	-	9,148,621
Financial common stocks	10,524,378	-	-	10,524,378
Healthcare common stocks	14,064,834	-	-	14,064,834
Other common stocks and mutual funds	45,300,908	-	-	45,300,908
Corporate obligations	-	31,672,965	-	31,672,965
Municipal obligations	-	83,452,521	-	83,452,521
Total	$ 239,562,863	$ 115,125,486	$ -	$ 354,688,349
December 31, 2016				
Investment securities-available for sale:				
U.S. Treasury notes and bonds	$ 188,238,822	$ -	$ -	$ 188,238,822
Domestic common stocks:				
Technology common stocks	12,189,552	-	-	12,189,552
Basic material common stocks	10,043,159	-	-	10,043,159
Financial common stocks	8,659,677	-	-	8,659,677
Healthcare common stocks	11,830,294	-	-	11,830,294
Other common stocks and mutual funds	35,712,599	-	-	35,712,599
Corporate obligations	-	34,843,239	-	34,843,239
Municipal obligations	-	25,088,240	-	25,088,240
Other	404,409	-	-	404,409
Total	$ 267,078,512	$ 59,931,479	$ -	$ 327,009,991

Note B - Significant Accounting Policies (Continued)

4. Investments (Continued): The Fund does not value any liabilities at fair value. The Fund does not measure any assets or liabilities at fair value on a nonrecurring basis. For all other classes of financial instruments, the carrying amount approximates fair value due to the short-term nature of the asset or liability. Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. It is reasonably possible that changes in the investment values could occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

5. Estimated Liability for Claims: Estimates of the liability for incurred (reported and not reported) claims are actuarially determined using development factor methods. These methods use past observed patterns of the time between when a claim is incurred and when a claim is paid to estimate ultimate incurred claims from available paid claims information. Liabilities are based on the estimated ultimate cost of settling the claims. The unpaid claims liabilities are necessarily based on estimates and, accordingly, the ultimate liability may be in excess of or less than the amounts provided. Adjustments to the estimated liability for claims are charged or credited to expense in the periods in which they become known. Any adjustments could be material to the financial statements. In accordance with ASC Topic 210, *Balance Sheet – Offsetting*, estimated amounts of excess insurance recoverable are shown as assets, and are not netted against the estimated liability for claims as of December 31, 2017 and 2016. The estimated liability for claims is discounted using an interest rate of 2.36%.

6. Member Dividends: Distributions to members in the form of dividends may be declared by the Board of Trustees, but under Kentucky Department of Insurance Regulations, dividends may not be paid until the end of the thirty-sixth month after the expiration of the self-insurance term. All insurance coverage is written under short duration, participating insurance contracts with a calendar year end expiration. The Fund reflects dividends as a charge to income and a liability in the year declared.

7. Premiums Earned: The Fund enters into individual workers' compensation insurance policy contracts with each Member Company, thus forming a group self-insured fund. Premiums are generally due at the beginning of each month based on the previous month's payroll exposure plus any current period known charges. Premiums are recognized as revenue during the period in which the Fund is obligated to provide coverage to said group of employers.

8. Member Deposits: Member deposits represent 25% of each member's estimated normal premium at the inception of membership in the Fund. Member deposits are subject to periodic updates based on each member's most recent audited payroll and the resulting premium. Once a member's coverage through the Fund has been terminated and all outstanding balances due to the Fund have been paid, the member's deposit will be refunded.

9. Comprehensive Income: Comprehensive income includes all changes in equity during a period except those resulting from investments by members and distributions to members. Other comprehensive loss is reported net of realized capital gains and losses.

10. Subsequent Events: Subsequent events for the Fund have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

Note B - Significant Accounting Policies (Continued)

11. Recent Accounting Pronouncements: In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance makes targeted improvements to the recognition and measurement of financial instruments by a) requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; b) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; c) eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; and d) requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for private companies for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The new guidance permits early adoption of the own credit provision. In addition, the new guidance permits early adoption of the provision that exempts private companies from having to disclose fair value information about financial instruments measured at amortized cost. The Fund intends to adopt this guidance upon the effective date listed and is currently evaluating the related impact on the financial statements.

    In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the calendar year ending December 31, 2021. The Fund intends to adopt this guidance upon the effective date listed and is currently evaluating the related impact on the financial statements.

    In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-09, *Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts*. This guidance requires insurance entities to disclose, for annual reporting periods incurred and paid claims development information by accident year, after reinsurance, for the number of years for which claims typically remain open. Disclosures should also include quantitative information about claim frequency and a qualitative description of methodologies used for determining claim frequency information. This guidance is effective for annual reporting periods beginning after December 15, 2016. The Fund has adopted this guidance as of December 31, 2017. As such, the presentation of the financial statements and notes herein have been changed to reflect such adoption.

    In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This new guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with the change in the federal corporate income tax rate due to the passing of the Tax Cuts and Jobs Act (Tax Act) on December 22, 2017. An entity that elects to reclassify these amounts must reclassify the stranded tax effects related to the change in the federal corporate income tax rate for all items accounted for in other comprehensive income. This guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for reporting periods in which financial statements have not yet been made available for issuance. The Fund intends to adopt this guidance as of January 1, 2018.

Note C - Investments

Investments at December 31, 2017 and 2016 include the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31. 2017				
U.S. Treasury notes and bonds	$ 144,782,584	$ 1,436,156	$ (1,073,106)	$ 145,145,634
Domestic common stock:				
Technology common stocks	6,945,092	8,433,396	-	15,378,488
Basic material common stocks	6,778,071	2,502,573	(132,023)	9,148,621
Financial common stocks	5,352,875	5,174,772	(3,269)	10,524,378
Healthcare common stocks	7,899,209	6,165,625	-	14,064,834
Other common stocks and mutual funds	23,143,085	22,262,384	(104,561)	45,300,908
Corporate obligations	31,755,396	80,475	(162,906)	31,672,965
Municipal obligations	84,961,444	201,584	(1,710,507)	83,452,521
Total	$ 311,617,756	$ 46,256,965	$ (3,186,372)	$ 354,688,349
December 31. 2016				
U.S. Treasury notes and bonds	$ 187,713,986	$ 2,599,173	$ (2,074,337)	$ 188,238,822
Domestic common stock:				
Technology common stocks	7,023,010	5,166,542	-	12,189,552
Basic material common stocks	7,917,839	2,191,154	(65,834)	10,043,159
Financial common stocks	5,340,254	3,344,344	(24,921)	8,659,677
Healthcare common stocks	8,061,075	3,769,219	-	11,830,294
Other common stocks and mutual funds	20,360,025	15,458,353	(105,779)	35,712,599
Corporate obligations	34,798,856	200,955	(156,572)	34,843,239
Municipal obligations	25,495,864	1,776	(409,400)	25,088,240
Other	400,000	4,409	-	404,409
Total	$ 297,110,909	$ 32,735,925	$ (2,836,843)	$ 327,009,991

The components of net investment income as of December 31, 2017 and 2016, are presented below:

	2017	2016
Investment income		
Interest on fixed income securities	$ 4,671,454	$ 6,205,778
Dividends on equity securities	1,952,230	1,734,001
Other investment income	53,536	29,254
Less investment expenses	(544,788)	(493,771)
Net investment income	$ 6,132,432	$ 7,475,262

Note C - <u>Investment (Continued)</u>

The components of net realized investment gains included in earnings for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Net realized investment gains		
Fixed income:		
Gross realized gains	$ 21,042	$ 94,820
Gross realized losses	(429,820)	-
Equity securities:		
Gross realized gains	696,933	747,006
Gross realized losses	(173,643)	(55,807)
Net realized investment gains	$ 114,512	$ 786,019

Debt instruments held as of December 31, 2017 have contracted maturities as follows:

	2017	
	Amortized Cost	Estimated Fair Value
Within 1 year	$ 43,821,859	$ 43,913,759
After 1 year through 5 years	158,719,950	158,968,605
After 5 years through 10 years	57,959,115	56,426,715
After 10 years	998,500	962,041
	$ 261,499,424	$ 260,271,120

In lieu of purchasing a bond, as required by the Kentucky Department of Insurance, the Fund has pledged approximately $25,656,946 and $26,451,290 of investments, at fair value, as collateral for the payment of workers' compensation claims as of December 31, 2017 and 2016, respectively. The amount pledged is to remain under the joint control of the Fund and the Department of Insurance, for the exclusive payment of any liability for workers' compensation claims incurred by the Fund.

Note C - Investment (Continued)

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	2017					
	Less Than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury notes and bonds	$ 46,411,515	$ (287,680)	$ 45,093,629	$ (785,426)	$ 91,505,144	$ (1,073,106)
Domestic common stocks:						
Basic material common stocks	1,010,850	(132,023)	-	-	1,010,850	(132,023)
Financial institutions common stocks	257,184	(3,269)	-	-	257,184	(3,269)
Other common stocks and mutual funds	1,170,730	(621)	668,405	(103,940)	1,839,135	(104,561)
Corporate obligations	8,497,185	(28,887)	11,999,830	(134,019)	20,497,015	(162,906)
Municipal obligations	31,130,380	(316,470)	45,091,050	(1,394,037)	76,221,430	(1,710,507)
Total	$ 88,477,844	$ (768,950)	$ 102,852,914	$ (2,417,422)	$ 191,330,758	$ (3,186,372)

	2016					
	Less Than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury notes and bonds	$ 61,356,584	$ (1,956,953)	$ 10,183,768	$ (117,384)	$ 71,540,352	$ (2,074,337)
Domestic common stocks:						
Basic material common stocks	1,043,180	(14,807)	1,064,684	(51,027)	2,107,864	(65,834)
Financial institutions common stocks	339,080	(24,921)	-	-	339,080	(24,921)
Other common stocks and mutual funds	1,911,562	(30,144)	696,710	(75,635)	2,608,272	(105,779)
Corporate obligations	7,984,380	(153,357)	5,504,415	(3,215)	13,488,795	(156,572)
Municipal obligations	17,161,350	(334,777)	5,925,390	(74,623)	23,086,740	(409,400)
Total	$ 89,796,136	$ (2,514,959)	$ 23,374,967	$ (321,884)	$ 113,171,103	$ (2,836,843)

At December 31, 2017, seventeen municipal funds, ten corporate bonds, one domestic common stock and seventeen U.S. treasury bonds with unrealized losses of $1,394,037, $134,019, $103,940 and $785,426, respectively, were in loss positions for 12 months or more. At December 31, 2016, two municipal funds, four corporate bonds, four domestic common stocks and four U.S. treasury bonds unrealized losses of $74,623, $3,215, $126,662, and $117,384, respectively, were in loss position for 12 months or more. Based on consideration of various factors, such as the issuer credit quality of the bonds, likelihood of an event of default of the issuer, or government or other guarantee of principle, these assets presently do not meet the Fund's other-than-temporary asset impairment criteria and will not be impaired unless it meets the ASC impairment criteria in the future.

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 market price which is normally recovered as the bond approaches its maturity date. The Fund has the intent and ability to hold all bond investments until recovery. At December 31, 2017, the Fund did not have the intent to sell any bonds whose fair value was less than amortized cost, it is not expected the Fund would be required to sell such securities, and the present values of the expected future cash flows is sufficient to recover the entire amortized cost of the securities.

Note D - Excess Insurance

The Fund uses excess insurance agreements to limit its exposure on payment of claims. Excess Insurance permits recovery of a portion of claims from excess insurers and their reinsurers although it does not discharge the Fund from the primary liability as direct insurer.

Aggregate excess insurance provides coverage if the total losses of the Fund exceed certain percentages of earned premium. The Fund discontinued the purchase of aggregate excess coverage effective May 1, 1994 and has subsequently received an annual purchase waiver by fulfilling the requirements as set-forth by the Kentucky Department of Insurance. At December 31, 2017 and 2016, aggregate excess insurance receivables with an undiscounted value of $545,819 and $550,194, respectively, were associated primarily with one excess insurer.

Specific excess insurance provides coverage for each loss in excess of certain amounts. At December 31, 2017 and 2016, specific excess insurance receivables with an undiscounted value of $29,526,979 and $27,448,300, respectively, were associated primarily with one excess insurer. The Fund does not hold any collateral under any excess insurance agreements. In the event that any of the excess insuring companies might be unable to meet their obligations under existing excess insurance agreements, the Fund would be liable for such amounts.

Note E - Estimated Liability for Claims

The following table provides a reconciliation of the reserve balance for losses and loss-adjustment expense from December 31, 2015 through December 31, 2017:

	2017	2016
Balance as of January 1	$ 262,598,556	$ 254,769,183
Less excess insurance receivables	26,688,474	26,505,773
Net balance as of January 1	235,910,082	228,263,410
Incurred related to:		
Current year - undiscounted	52,577,913	55,746,669
Decrease in prior years' estimates - undiscounted	(12,265,648)	(11,296,822)
Total incurred - undiscounted	40,312,265	44,449,847
Effect of discounting reserves	(1,733,497)	(3,677,871)
Net incurred	38,578,768	40,771,976
Paid related to:		
Current year	6,210,014	8,382,042
Prior years	25,072,381	24,743,262
Total paid losses and LAE	31,282,395	33,125,304
Net balance as of December 31	243,206,455	235,910,082
Plus excess insurance receivables	24,539,403	26,688,474
Balance as of December 31	$ 267,745,858	$ 262,598,556

The following required supplementary information includes incurred and paid loss development as of December 31, 2017, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not reported liabilities, plus expected development on reported claims included within the net incurred claims amounts. The information about incurred and paid loss development for the years ended December 31, 2008 to December 31, 2017, is presented as supplementary information and is unaudited.

Note F - Income Taxes

The Fund's tax status is that of an insurance company subject to the provisions of Section 831 of the Internal Revenue Code of 1986, as amended. Under provisions of the Code, the Fund is permitted deductions for member dividends declared but not paid. The provision for federal income taxes is based upon an income tax return for the Fund as a stand-alone entity. The Fund has $715,415 of alternative minimum tax credits to utilize against future taxes. These credits have no expiration. The Fund has no operating loss carry forwards and no capital loss carry forwards remaining at year-end. The primary difference between the statutory tax rate and the effective tax rate for the Fund is the dividends received deduction.

The tax effects of temporary differences, which give rise to the deferred taxes at December 31, 2017 and 2016, are as follows:

	2017	2016
Estimated liability for claims	$ (9,721,995)	$ 1,336,435
Investment differences	(48,313)	-
Other	715,415	585,217
Net unrealized gain on investments	(9,044,824)	(10,210,416)
Net deferred tax liability	$ (18,099,717)	$ (8,288,764)

Income tax (benefit) expense for the years ended December 31, 2017 and 2016, consist of the following:

	2017	2016
Current year (benefit) expense	$ (10,271,384)	$ 357,445
Deferred expense	5,377,368	210,602
Income tax (benefit) expense	$ (4,894,016)	$ 568,047

ASC Topic 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the recognition, measurement, presentation, and disclosure of uncertain tax positions that the Fund has taken or expects to take on a tax return. ASC Topic 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation process, based on the technical merits of the income tax position. Income tax positions must meet a more likely than not recognition threshold to be recognized. As of December 31, 2017 and 2016, the Fund's liability for uncertain tax positions was not material. The Fund believes it is no longer subject to income tax examinations for years prior to 2014.

The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 34 percent to 21 percent; (2) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; and (3) repealing the special loss deduction under IRC Section 847.

Note F - Income Taxes (Continued)

The Fund has recorded the impact related to the repeal of IRC Section 847 of approximately $10,250,000 within the income tax benefit on the statement of income and comprehensive income for the year ended December 31, 2017.

In accordance with rate changes enacted in the Tax Act, the Fund's deferred tax assets and liabilities measured at 21% at December 31, 2017 compared to 34% at December 31, 2016. For the year ended December 31, 2017, the Fund recorded a net tax benefit of $4,894,016 which includes a current tax benefit of $10,271,384 and a deferred tax expense of $5,377,368. Of this amount, $5,599,177 is related to the re-measurement of deferred taxes associated with items in other comprehensive income.

The Fund has elected to adopt the guidance under ASU 2018-02 effective January 1, 2018 and the amount of stranded tax effect related to unrealized gains in accumulated other comprehensive income at December 31, 2017 is $5,599,177. The adjustment will be recorded as a reclassification to accumulated other comprehensive income from retained earnings as of January 1, 2018.

Note G - Related Party Transactions

Service fee expenses to Ladegast & Heffner Claims Service, Inc. were $8,481,234 and $8,638,104, for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, service fee liabilities of $1,255,759 and $1,300,455, respectively, were due to Ladegast & Heffner Claims Service, Inc. The service fee is based on a percentage of premiums earned and was 13.7% at December 31, 2017 and 2016.

Note H - Fund Balance

The Fund is required to maintain a minimum level of Fund Balance as set forth by the statutory requirements of the Kentucky Department of Insurance. The minimum requirement of $1,000,000 was met as of December 31, 2017 and 2016.

In 2017 and 2016, the Fund declared dividends of $8,400,000 and $8,860,000, respectively, recorded in accrued member dividends on the balance sheets.

Required Supplementary Information

Kentucky Associated General Contractors Self Insurers' Fund
Required Supplementary Information
Years Ended December 31, 2017 and 2016

Workers Compensation

Accident Year	Ultimate Loss (including IBNR) and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 2017	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR (1)	Number of Reported Claims
	Unaudited											Unaudited
2008	$ 60,166,367	$ 53,665,348	$ 51,560,944	$ 50,642,959	$ 49,331,046	$ 47,615,145	$ 44,443,044	$ 44,414,594	$ 43,892,801	$ 43,470,555	$ 5,616,658	1,957
2009		50,738,539	50,846,000	52,965,755	50,322,348	50,988,993	49,693,470	47,806,305	50,417,692	49,182,491	4,951,940	1,594
2010			49,815,320	49,720,001	50,367,743	50,029,479	50,062,529	48,555,447	49,679,560	48,229,091	5,884,337	1,535
2011				49,020,151	51,936,665	52,442,714	50,001,848	51,247,750	49,127,327	49,159,320	7,403,035	1,422
2012					52,137,981	49,939,942	49,499,884	48,890,150	47,877,256	46,904,365	7,748,763	1,351
2013						52,496,591	49,329,599	46,510,320	38,160,977	36,850,236	9,659,592	1,220
2014							56,148,591	56,048,310	55,496,852	52,498,680	11,865,033	1,160
2015								52,098,610	48,636,460	45,490,335	19,647,485	1,154
2016									55,501,662	51,983,275	16,928,349	1,168
2017										52,577,913	32,489,661	1,063
									Total	$ 476,346,261		

(1) Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims as of December 31, 2017

Workers Compensation

Accident Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Gross of Reinsurance									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Unaudited									
2008	$ 9,086,984	$ 16,459,135	$ 21,331,139	$ 24,619,535	$ 26,606,316	$ 28,351,390	$ 29,486,283	$ 30,449,362	$ 31,504,102	$ 32,215,189
2009		8,600,928	16,182,544	21,163,082	24,328,390	26,684,421	28,556,016	30,097,126	31,151,080	32,162,576
2010			8,929,525	17,395,732	22,707,298	26,014,263	27,779,612	29,241,537	30,377,313	31,439,817
2011				9,167,050	18,318,650	23,812,713	27,199,545	29,261,084	30,739,152	32,019,368
2012					8,505,506	16,467,561	21,752,783	24,388,330	26,757,560	28,273,726
2013						6,913,295	13,829,311	17,956,581	20,757,371	22,255,058
2014							7,280,697	17,451,006	22,424,042	25,803,730
2015								6,758,910	12,887,596	16,032,862
2016									8,382,041	16,841,079
2017										6,210,014

Excess reinsurance recoveries received	(22,103,308)
Total paid net of reinsurance recoveries	221,150,111
All outstanding liabilities before 2008, net of reinsurance	48,384,372
Liabilities for Claims and Claim Adjustment Expenses, net of Reinsurance	$ 303,580,522

Kentucky Associated General Contractors Self Insurers' Fund
Required Supplementary Information (Continued)
Years Ended December 31, 2017 and 2016

The reconciliation of the net incurred and paid loss development tables to the liability for losses and loss adjustment expenses in the balance sheet is as follows:

	December 31, 2017
Net outstanding liabilities	
Worker's Compensation - Case Reserves	$ 136,987,225
Worker's Compensation - IBNR	162,481,302
Effect of Discounting Reserves	(60,374,067)
Discounted Liabilities for Unpaid Claims and Claim Adjustment Expenses, net of Reinsurance	239,094,460
Excess reinsurance recoverable on unpaid claims	
Excess Specific	545,819
Excess Aggregate	29,526,979
Effect of Discounting Recoverable	(5,533,395)
Total Reinsurance Recoverable on Unpaid Claims	24,539,403
Unallocated claims adjustment expenses	4,111,995
Total Liabilities for Unpaid Claims and Claim Adjustment Expenses, net of Reinsurance	$ 267,745,858

The following supplementary information is about the average historical claims duration as of December 31, 2017.

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	16.9%	17.0%	10.3%	6.8%	4.4%	3.4%	2.7%	2.2%	2.2%	1.6%

The following is a summary of the liabilities for unpaid claims and claims adjustment expenses that are presented at fair value in the balance sheet as of December 31:

	2017	2016
Carrying amount of the liabilities for unpaid claims and claim adjustment expenses presented at fair value	$ 267,745,858	$ 262,598,556
Aggregate amount of discount	54,840,672	53,107,175
Range of interest rates used to discount	2-3%	2-3%