

Kentucky Associated General Contractors Self Insurers' Fund
Financial Statements
Years Ended December 31, 2020 and 2019

Kentucky Associated General Contractors Self Insurers' Fund
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Years Ended December 31, 2020 and 2019

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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 sheets as of December 31, 2020 and 2019, and the related statements of operations and comprehensive income, changes in fund balance, 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 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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Independent Auditor's Report (Continued)

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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Required 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 through 2020 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 prior to 2017 because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on the information prior to 2017.

MCM CPAs & Advisors LLP

Louisville, Kentucky
April 12, 2021

Kentucky Associated General Contractors Self Insurers' Fund
Balance Sheets
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 69,038,695	\$ 22,552,631
Investments		
Fixed maturities available-for-sale, at fair value	227,109,507	275,533,914
Equity securities, at fair value	<u>131,091,187</u>	<u>115,974,219</u>
Total investments	358,200,694	391,508,133
Premiums receivable	8,443,054	8,013,140
Aggregate excess insurance	459,249	473,901
Specific excess insurance	36,214,200	34,691,954
Accrued interest	937,372	1,512,550
Income taxes receivable	6,425,587	11,471,412
Prepaid reinsurance	<u>1,161,560</u>	<u>1,345,602</u>
Total assets	<u>\$ 480,880,411</u>	<u>\$ 471,569,323</u>
Liabilities and fund balance		
Liabilities		
Estimated liability for claims		
Incurred and reported	\$ 145,068,465	\$ 139,432,862
Incurred but not reported and loss adjustment expense	123,819,332	137,536,954
Unallocated loss-adjustment expense	<u>4,225,831</u>	<u>4,225,831</u>
Total estimated liability for claims	273,113,628	281,195,647
Premiums refundable	1,287,303	1,387,991
Service fee and other fees payable	3,965,495	4,248,721
Member deposits	9,203,751	9,489,835
Tax assessments collected on premiums	871,689	932,173
Deferred tax liability, net	14,066,351	11,620,579
Accrued member dividends	<u>77,516,412</u>	<u>69,643,396</u>
Total liabilities	380,024,629	378,518,342
Fund balance		
Retained earnings	99,641,724	92,333,822
Accumulated other comprehensive income, net of income taxes	<u>1,214,058</u>	<u>717,159</u>
Total fund balance	<u>100,855,782</u>	<u>93,050,981</u>
Total liabilities and fund balance	<u>\$ 480,880,411</u>	<u>\$ 471,569,323</u>

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Operations and Comprehensive Income
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues		
Premiums earned	\$ 51,381,469	\$ 56,980,247
Premiums ceded to excess insurer	<u>(2,100,000)</u>	<u>(1,644,996)</u>
Net premiums earned	49,281,469	55,335,251
Net investment income	6,165,413	8,958,778
Net realized investment gains	2,888,505	1,728,524
Unrealized gains on equity securities	11,241,702	22,958,104
Other	<u>198,651</u>	<u>240,943</u>
Total revenues	69,775,740	89,221,600
Expenses		
Claims incurred	21,690,012	20,460,196
Service fee	8,087,383	8,996,301
Commissions	5,086,898	5,676,132
Loss control	3,571,830	742,324
Premium audits	480,000	490,000
Other operating expenses	<u>2,175,029</u>	<u>2,276,887</u>
Total expenses	41,091,152	38,641,840
Income before dividends declared to members and income tax benefit	28,684,588	50,579,760
Dividends declared to members	<u>20,000,000</u>	<u>33,000,000</u>
Income before income tax benefit	8,684,588	17,579,760
Income tax expense (benefit)	<u>1,376,686</u>	<u>(2,753,122)</u>
Net income	7,307,902	20,332,882
Other comprehensive income - before tax		
Unrealized gains on investments		
Unrealized holding gains arising during the year	707,147	4,294,692
Reclassification adjustments for gains included in net income	<u>(78,161)</u>	<u>(48,857)</u>
Other comprehensive income before tax	628,986	4,245,835
Income tax expense relative to other comprehensive income, net	<u>(132,087)</u>	<u>(891,625)</u>
Other comprehensive income, net of tax	496,899	3,354,210
Comprehensive income	<u>\$ 7,804,801</u>	<u>\$ 23,687,092</u>

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Changes in Fund Balance
Years Ended December 31, 2020 and 2019

	Retained earnings	Accumulated other comprehensive income, net	Fund balance
	<u> </u>	<u> </u>	<u> </u>
Balance at December 31, 2018	\$ 41,161,646	\$ 28,202,243	\$ 69,363,889
Net income	20,332,882	-	20,332,882
Cumulative impact of adoption of ASU 2016-01 as of January 1, 2019 (Note B)	30,839,294	(30,839,294)	-
Other comprehensive income, net tax	-	3,354,210	3,354,210
	<u> </u>	<u> </u>	<u> </u>
Balance at December 31, 2019	92,333,822	717,159	93,050,981
Net income	7,307,902	-	7,307,902
Other comprehensive income, net tax	-	496,899	496,899
	<u> </u>	<u> </u>	<u> </u>
Balance at December 31, 2020	<u>\$ 99,641,724</u>	<u>\$ 1,214,058</u>	<u>\$ 100,855,782</u>

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Net income	\$ 7,307,902	\$ 20,332,882
Adjustments to reconcile net income to net cash provided by operating activities		
Dividends declared to members	20,000,000	33,000,000
Change in unrealized gains on equity securities	(11,241,702)	(22,958,104)
Gain on sale of investments	(2,888,505)	(1,728,524)
Deferred income taxes	2,313,685	4,003,119
Amortization of investment premiums and discounts, net	597,248	(121,134)
Changes in assets and liabilities		
Receivables	(1,362,330)	(9,641,653)
Prepaid insurance	184,042	(127,400)
Income taxes receivable	5,045,825	(6,756,240)
Estimated liability for claims	(8,082,019)	(720,508)
Payables and accrued expenses	(383,914)	(306,296)
Member deposits	(286,084)	(422,018)
Tax assessments collected on premiums	(60,484)	(44,554)
	<u>11,143,664</u>	<u>14,509,570</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of investments	(211,696,970)	(182,870,137)
Proceeds from maturities and sales of investments	<u>259,166,354</u>	<u>175,746,920</u>
Net cash provided by (used in) investing activities	47,469,384	(7,123,217)
Cash flows from financing activities		
Payment of dividends to members	<u>(12,126,984)</u>	<u>(8,048,774)</u>
Net increase (decrease) in cash and cash equivalents	46,486,064	(662,421)
Cash and cash equivalents - beginning of year	<u>22,552,631</u>	<u>23,215,052</u>
Cash and cash equivalents - end of year	<u><u>\$ 69,038,695</u></u>	<u><u>\$ 22,552,631</u></u>

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

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, 2023, who is paid a service fee 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 when purchased. Cash and cash equivalents are stated at cost, which approximates fair value. The Fund's bank balances are held at a single financial institution, and at times, balances exceed federally insured amounts.
4. Investments: Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. As such, equity securities which primarily include common stocks and mutual funds are now carried at fair value with the periodic change in fair value recognized in net income in the accompanying statements of operations and comprehensive income. The associated deferred tax expense on the periodic change in fair value recognized is included in the provision for income taxes. Prior to 2019, marketable securities not classified as either trading or held-to-maturity were reported at fair value, adjusted for other-than-temporary declines in fair value, with unrealized gains and losses reported as a separate component of fund balance, net of any deferred taxes.

Realized gains and losses are determined on the specific identification method. In evaluating potential impairment, management considers, among other criteria: the current fair value compared to amortized cost or cost, as appropriate; the length of time the security's fair value has been below amortized cost or cost; management's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in value; specific credit issues related to the issuer; and current economic conditions. Other-than-temporary impairment losses result in a permanent reduction of the cost basis of the underlying investment. During 2020 and 2019, the Fund did not record any other-than-temporary impairments.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note B - Significant Accounting Policies (Continued)

4. Investments (Continued): 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 FASB 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.

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; and
- 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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2020				
Investment securities				
U.S. Treasury notes and bonds	\$ -	\$ 67,496,582	\$ -	\$ 67,496,582
U.S. Special revenue issuer obligations	-	130,733,025	-	130,733,025
Domestic common stock	108,643,700	-	-	108,643,700
Mutual funds	22,447,487	-	-	22,447,487
Corporate obligations	-	28,879,900	-	28,879,900
	<u>-</u>	<u>28,879,900</u>	<u>-</u>	<u>28,879,900</u>
Total	<u>\$ 131,091,187</u>	<u>\$ 227,109,507</u>	<u>\$ -</u>	<u>\$ 358,200,694</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2019				
Investment securities				
U.S. Treasury notes and bonds	\$ -	\$ 50,626,276	\$ -	\$ 50,626,276
U.S. special revenue issuer obligations	-	191,674,057	-	191,674,057
Domestic common stock	96,431,191	-	-	96,431,191
Mutual funds	19,543,028	-	-	19,543,028
Corporate obligations	-	33,233,581	-	33,233,581
	<u>-</u>	<u>33,233,581</u>	<u>-</u>	<u>33,233,581</u>
Total	<u>\$ 115,974,219</u>	<u>\$ 275,533,914</u>	<u>\$ -</u>	<u>\$ 391,508,133</u>

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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, 2020 and 2019. The estimated liability for claims is discounted using an interest rate of 1.8% at December 31, 2020 and 2019.
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 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 income is reported net of realized capital gains and losses on fixed income investments and taxes.
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.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note B - Significant Accounting Policies (Continued)

11. Recent Accounting Pronouncements: 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, 2023. The Fund intends to adopt this guidance upon the effective date listed and is currently evaluating the related impact on the financial statements.
12. Reclassifications: Certain reclassifications were made to the 2019 financial statements to conform to the 2020 presentation. There was no impact on the fund balance or net income as a result of the changes.

Note C - Investments

Investments at December 31, 2020 and 2019 include the following:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
December 31, 2020				
U.S. Treasury notes and bonds	\$ 67,330,551	\$ 172,382	\$ (6,351)	\$ 67,496,582
U.S. Special revenue issuer obligations	130,539,583	544,685	(351,243)	130,733,025
Domestic common stock	47,289,234	62,556,182	(1,201,716)	108,643,700
Mutual funds	10,565,066	12,416,194	(533,773)	22,447,487
Corporate obligations	27,702,592	1,177,308	-	28,879,900
Total	<u>\$ 283,427,026</u>	<u>\$ 76,866,751</u>	<u>\$ (2,093,083)</u>	<u>\$ 358,200,694</u>
December 31, 2019				
U.S. Treasury notes and bonds	\$ 50,443,328	\$ 183,551	\$ (603)	\$ 50,626,276
U.S. special revenue issuer obligations	191,374,126	704,645	(404,714)	191,674,057
Domestic common stock	43,607,322	53,734,127	(910,258)	96,431,191
Mutual funds	10,371,712	9,841,112	(669,796)	19,543,028
Corporate obligations	32,786,154	452,288	(4,861)	33,233,581
Total	<u>\$ 328,582,642</u>	<u>\$ 64,915,723</u>	<u>\$ (1,990,232)</u>	<u>\$ 391,508,133</u>

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note C - Investments (Continued)

The components of net investment income as of December 31, 2020 and 2019, are presented below:

	<u>2020</u>	<u>2019</u>
Investment income		
Interest on fixed income securities	\$ 4,349,157	\$ 6,971,751
Dividends on equity securities	2,443,195	2,399,554
Other investment income	32,345	215,928
Less investment expenses	<u>(659,284)</u>	<u>(628,455)</u>
Net investment income	<u>\$ 6,165,413</u>	<u>\$ 8,958,778</u>

The components of net realized investment gains (losses) and equity valuation increases included in earnings for the years ended December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Net realized investment gains (losses) and equity valuation increases		
Fixed income		
Gross realized gains	\$ 111,770	\$ 52,716
Gross realized losses	<u>(7,931)</u>	<u>(3,859)</u>
Net fixed income investment gains	103,839	48,857
Equity securities		
Gross unrealized gains and losses recorded during the year on equity securities still held at December 31, 2020	11,241,702	22,958,104
Gross realized gains	4,469,558	1,679,667
Gross realized losses	<u>(1,684,892)</u>	<u>-</u>
Net equity investment gains	<u>14,026,368</u>	<u>24,637,771</u>
Net realized investment gains and equity valuation increases	<u>\$ 14,130,207</u>	<u>\$ 24,686,628</u>

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note C - Investments (Continued)

Debt securities held as of December 31, 2020 have contracted maturities as follows:

	Amortized cost	Estimated fair value
Within 1 year	\$ 57,430,315	\$ 57,806,597
After 1 year through 5 years	67,822,430	69,081,890
After 5 years through 10 years	99,319,981	99,223,040
After 10 years	<u>1,000,000</u>	<u>997,980</u>
	<u>\$ 225,572,726</u>	<u>\$ 227,109,507</u>

In lieu of purchasing a bond, as required by the Kentucky Department of Insurance, the Fund has pledged approximately \$29,201,229 and \$28,191,616 of investments, at fair value, as collateral for the payment of workers' compensation claims as of December 31, 2020 and 2019, 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.

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:

	2020					
	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	\$ 15,296,750	\$ (6,351)	\$ -	\$ -	\$ 15,296,750	\$ (6,351)
Common stocks	-	-	2,161,646	(1,201,716)	2,161,646	(1,201,716)
Mutual funds	-	-	1,505,822	(533,773)	1,505,822	(533,773)
U.S. special revenue issuer obligations	<u>39,668,250</u>	<u>(351,243)</u>	<u>-</u>	<u>-</u>	<u>39,668,250</u>	<u>(351,243)</u>
Total	<u>\$ 54,965,000</u>	<u>\$ (357,594)</u>	<u>\$ 3,667,468</u>	<u>\$ (1,735,489)</u>	<u>\$ 58,632,468</u>	<u>\$ (2,093,083)</u>
	2019					
	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	\$ 2,000,565	\$ (603)	\$ -	\$ -	\$ 2,000,565	\$ (603)
Common stocks	-	-	2,976,659	(910,258)	2,976,659	(910,258)
Mutual funds	1,369,799	(669,796)	-	-	1,369,799	(669,796)
U.S. special revenue issuer obligations	54,797,690	(200,654)	35,284,645	(204,060)	90,082,335	(404,714)
Corporate obligations	<u>1,015,580</u>	<u>(2,640)</u>	<u>997,780</u>	<u>(2,221)</u>	<u>2,013,360</u>	<u>(4,861)</u>
Total	<u>\$ 59,183,634</u>	<u>\$ (873,693)</u>	<u>\$ 39,259,084</u>	<u>\$ (1,116,539)</u>	<u>\$ 98,442,718</u>	<u>\$ (1,990,232)</u>

At December 31, 2020, no fixed maturity available-for-sale investments were at an unrealized loss position for 12 months or more. At December 31, 2019, seven municipal funds, one corporate bond, five other federal bonds with unrealized losses of \$163,129, \$2,221, and \$40,932, respectively, were in loss positions 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 were not be impaired.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note C - Investments (Continued)

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, 2020, 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 contractual future cash flows is sufficient to recover the entire amortized cost of the securities.

Note D - Excess Reinsurance

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

Aggregate excess reinsurance 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, 2020 and 2019, aggregate excess insurance receivables with an undiscounted value of \$526,662 and \$544,088, respectively, were associated primarily with one excess insurer.

Specific excess reinsurance also provides coverage for each individual event loss in excess of certain amounts (\$3,000,000 self-insured retention at December 31, 2020 and 2019). At December 31, 2020 and 2019, specific excess insurance receivables had an undiscounted value of \$41,530,046 and \$39,830,027, respectively, were associated primarily with one excess insurer. The Fund does not hold any collateral under any excess reinsurance agreements. In the event that any of the excess insuring companies might be unable to meet their obligations under existing excess reinsurance agreements, the Fund would be liable for such amounts.

To reflect the time value of money, the Fund has discounted the excess reinsurance receivables. The discount rate at December 31, 2020 and 2019 is 1.8%. Discount rate is evaluated annually is determined by management and the Fund's actuary. The tabular discounts were \$5,383,259 and \$5,208,260 as of December 31, 2020 and 2019, respectively.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note E - Estimated Liability for Claims

The following table provides a reconciliation of the reserve balance for losses and loss-adjustment expense from January 1, 2019 through December 31, 2020:

	<u>2020</u>	<u>2019</u>
Balance as of January 1	\$ 281,195,647	\$ 281,916,155
Less excess insurance receivables	<u>35,165,855</u>	<u>24,638,905</u>
Net balance as of January 1	246,029,792	257,277,250
Incurred related to		
Current year - undiscounted	48,184,600	53,122,800
Decrease in prior years' estimates - undiscounted	<u>(26,494,588)</u>	<u>(32,662,604)</u>
Total incurred - undiscounted	21,690,012	20,460,196
Paid related to		
Current year	6,826,972	7,083,790
Prior years	<u>24,452,653</u>	<u>24,623,864</u>
Total paid losses and LAE	<u>31,279,625</u>	<u>31,707,654</u>
Net balance as of December 31	236,440,179	246,029,792
Plus excess insurance receivables	<u>36,673,449</u>	<u>35,165,855</u>
Balance as of December 31	<u>\$ 273,113,628</u>	<u>\$ 281,195,647</u>
Effect of discounting reserves	\$ (1,966,633)	\$ (17,758,023)

To reflect the time value of money, the Fund has discounted both case reserves and IBNR reserves. The discount rate at December 31, 2020 and 2019 is 1.8%. Discount rate is evaluated annually is determined by management and the Fund's actuary. The tabular discounts were \$40,090,074 and \$41,646,657 as of December 31, 2020 and 2019, respectively. The Fund recognized discount accretion of approximately \$2,000,000 and \$17,800,000 for 2020 and 2019, respectively through direct losses incurred on the statement of operation and comprehensive income.

The following required supplementary information on page 17 and 18 includes incurred and paid loss development as of December 31, 2020, 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 prior to 2017 is presented as supplementary information and is unaudited.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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 tax effects of temporary differences, which give rise to deferred taxes at December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Deferred tax assets (liabilities)		
Estimated liability for claims	\$ 1,684,432	\$ 1,637,360
Net unrealized gains on investments	<u>(15,750,783)</u>	<u>(13,257,939)</u>
Net deferred tax liability	<u>\$ (14,066,351)</u>	<u>\$ (11,620,579)</u>

Income tax expense (benefit) for the years ended December 31, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Current year benefit	\$ (936,999)	\$ (6,756,241)
Deferred expense	<u>2,313,685</u>	<u>4,003,119</u>
Income tax expense (benefit)	<u>\$ 1,376,686</u>	<u>\$ (2,753,122)</u>

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 resolution of any related appeals or litigation process, based on the technical merits of the income tax position.

As of December 31, 2020, and 2019, there were no recorded uncertain tax positions. The Fund believes it is no longer subject to income tax examinations for years prior to 2017.

Note G - Related Party Transactions

Service fee expenses to Ladegast & Heffner Claims Service, Inc. were \$8,087,383 and \$8,996,301, for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, service fee liabilities of \$1,116,001 and \$1,080,554, 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, 2020 and 2019. During 2020, the Fund awarded an additional service fee to Ladegast & Heffner of \$101,667 monthly beginning January 2019 and ending December 2020.

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, 2020 and 2019.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

Note H - Fund Balance (Continued)

In 2020 and 2019, the Fund declared dividends of \$20,000,000 and \$33,000,000, respectively, recorded in accrued member dividends on the balance sheets.

Note I - COVID-19

During 2020, the outbreak of the novel coronavirus disease 2019 ("COVID-19") was declared a United States and global pandemic. The Fund's operations have not been significantly impacted by the outbreak of COVID-19. Since the situation surrounding the pandemic is on-going, the Funds' operations could ultimately be adversely impacted by the outbreak of COVID-19. The duration, nature and extent on the ultimate direct or indirect impact on the Funds' financial condition, liquidity, and/or future results of operations, if any, cannot be reasonably estimated at this time.

Required Supplementary Information

**Kentucky Associated General Contractors Self Insurers' Fund
Required Supplementary Information
Years Ended December 31, 2020 and 2019**

Workers compensation

Accident year	Ultimate loss (including IBNR) and allocated claim adjustment expenses, net of reinsurance										As of December 31, 2020	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	IBNR (1)	Number of reported claims (2)
	Unaudited					Audited						
2011	\$ 49,020,151	\$ 51,936,665	\$ 52,442,714	\$ 50,001,848	\$ 51,247,750	\$ 49,127,327	\$ 49,159,320	\$ 48,693,011	\$ 47,565,439	\$ 45,322,323	\$ 4,847,412	2,892
2012		52,137,981	49,939,942	49,499,884	48,890,150	47,877,256	46,904,365	45,392,631	43,618,395	42,389,590	5,867,462	2,826
2013			52,496,591	49,329,599	46,510,320	38,160,977	36,850,236	35,686,456	34,254,616	32,714,182	6,687,772	2,857
2014				56,148,591	56,048,310	55,496,852	52,498,680	50,702,492	48,130,311	46,634,032	8,242,474	2,791
2015					52,098,610	48,636,460	45,490,065	45,433,271	41,196,728	39,315,288	10,714,858	2,748
2016						55,501,662	51,983,275	52,004,940	48,955,058	47,356,927	12,165,521	2,557
2017							52,577,913	50,407,430	48,807,700	45,644,831	18,643,933	2,702
2018								58,574,600	52,144,500	47,846,522	15,856,714	2,384
2019									53,122,800	51,073,388	14,865,734	2,291
2020										48,184,600	21,008,888	1,965
Total										\$ 446,481,683		

(1) Total of incurred-but-not-reported liabilities plus expected development on reported claims as of December 31, 2020.

(2) Claims frequency reported in the above table is determined on an individual claimant level.

Workers compensation

Accident year	Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Unaudited					Audited				
2011	\$ 9,167,050	\$ 18,318,650	\$ 23,812,713	\$ 27,199,545	\$ 29,261,084	\$ 30,739,537	\$ 32,019,368	\$ 33,409,274	\$ 34,366,566	\$ 35,264,807
2012		8,505,506	16,467,561	21,752,783	24,388,330	26,757,560	28,273,726	29,210,995	29,966,482	30,691,537
2013			6,913,295	13,829,311	17,956,581	20,757,371	22,255,058	22,808,556	23,273,056	23,698,080
2014				7,280,697	17,451,006	22,424,042	25,803,730	28,215,848	29,869,306	31,210,630
2015					6,758,910	12,887,596	16,032,862	17,972,982	19,649,692	20,661,236
2016						8,382,041	16,841,079	21,738,503	24,161,499	25,803,973
2017							6,210,014	13,063,429	16,915,721	18,975,794
2018								6,965,725	15,644,433	20,444,457
2019									7,083,790	14,840,292
2020										6,826,972

Total paid net of reinsurance recoveries

228,417,778

All outstanding liabilities before 2011, net of reinsurance

53,083,089

Liabilities for claims and claim adjustment expenses, net of reinsurance

\$ 271,146,994

See accompanying independent auditor's report.

Kentucky Associated General Contractors Self Insurers' Fund
Required Supplementary Information (Continued)
Years Ended December 31, 2020 and 2019

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:

	<u>December 31,</u> <u>2020</u>
Net outstanding liabilities	
Worker's compensation - case reserves	\$ 142,166,719
Worker's compensation - IBNR	124,754,444
Unallocated claims adjustment expenses	<u>4,225,831</u>
Undiscounted liabilities for unpaid claims and claim adjustment expenses, net of reinsurance per incurred and paid loss development tables	271,146,994
Excess reinsurance recoverable on unpaid claims	
Excess specific and aggregate	24,196,200
Excess IBNR	<u>17,860,508</u>
Undiscounted reinsurance recoverable on unpaid claims	42,056,708
Discount	
Effect of discounting recoverables	(5,383,259)
Effect of discounting reserves	<u>(34,706,815)</u>
Total discount on unpaid claims and excess reinsurance recoverable	(40,090,074)
Total liabilities for unpaid claims and claim adjustment expenses net of excess reinsurance recoverable	<u><u>\$ 273,113,628</u></u>

The following supplementary information is about the average historical claims' duration as of December 31, 2020.

<u>Average annual percentage payout of incurred claims by age, net of reinsurance</u>										
Average Annual percentage payout of incurred claims by age, net of reinsurance										
Years	1	2	3	4	5	6	7	8	9	10
	16.6%	17.8%	10.4%	6.4%	4.5%	3.0%	2.2%	2.3%	2.1%	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:

	<u>2020</u>	<u>2019</u>
Carrying amount of the liabilities for unpaid claims and claim adjustment expenses presented at fair value	\$ 273,113,628	\$ 281,195,647
Aggregate amount of discount	34,706,815	36,438,397
Range of interest rates used to discount	1-2%	1-2%