

Kentucky Associated General Contractors Self Insurers' Fund

Financial Statements

Years Ended December 31, 2021 and 2020

Kentucky Associated General Contractors Self Insurers' Fund
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Years Ended December 31, 2021 and 2020

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Kentucky Associated General Contractors Self Insurers' Fund (the "Fund"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income and comprehensive income, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kentucky Associated General Contractors Self Insurers' Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Associated General Contractors Self Insurers' Fund's ability to continue as a going concern for one year after the date that the financial statements are issued.

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Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kentucky Associated General Contractors Self Insurers' Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Associated General Contractors Self Insurers' Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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.

Independent Auditor's Report (Continued)

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 2021 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 14, 2022

Kentucky Associated General Contractors Self Insurers' Fund
Balance Sheets
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 24,104,763	\$ 69,038,695
Investments		
Fixed maturities available-for-sale, at fair value	261,538,310	227,109,507
Equity securities, at fair value	<u>159,886,616</u>	<u>131,091,187</u>
Total investments	421,424,926	358,200,694
Premiums receivable	7,901,587	8,443,054
Aggregate excess insurance	469,256	459,249
Specific excess insurance	39,018,075	36,214,200
Accrued interest	797,385	937,372
Income taxes receivable	5,534,166	6,425,587
Prepaid reinsurance	<u>1,265,276</u>	<u>1,161,560</u>
Total assets	<u>\$ 500,515,434</u>	<u>\$ 480,880,411</u>
Liabilities and fund balance		
Liabilities		
Estimated liability for claims		
Incurred and reported	\$ 141,255,251	\$ 145,068,465
Incurred but not reported and loss adjustment expense	123,725,280	123,819,332
Unallocated loss-adjustment expense	<u>3,794,911</u>	<u>4,225,831</u>
Total estimated liability for claims	268,775,442	273,113,628
Premiums refundable	967,630	1,287,303
Service fee and other fees payable	4,203,994	3,965,495
Member deposits	8,799,214	9,203,751
Tax assessments collected on premiums	1,005,164	871,689
Deferred tax liability, net	18,941,607	14,066,351
Accrued member dividends	<u>77,126,945</u>	<u>77,516,412</u>
Total liabilities	379,819,996	380,024,629
Fund balance		
Retained earnings	123,349,023	99,641,724
Accumulated other comprehensive (loss) income, net of income taxes	<u>(2,653,585)</u>	<u>1,214,058</u>
Total fund balance	<u>120,695,438</u>	<u>100,855,782</u>
Total liabilities and fund balance	<u>\$ 500,515,434</u>	<u>\$ 480,880,411</u>

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Income and Comprehensive Income
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues		
Premiums earned	\$ 52,104,770	\$ 51,381,469
Premiums ceded to excess insurer	<u>(1,930,018)</u>	<u>(2,100,000)</u>
Net premiums earned	50,174,752	49,281,469
Net investment income	4,533,668	6,165,413
Net realized investment (losses) gains	(218,532)	2,888,505
Unrealized gains on equity securities	30,696,314	11,241,702
Other	<u>552,630</u>	<u>198,651</u>
Total revenues	85,738,832	69,775,740
Expenses		
Claims incurred	23,041,447	21,690,012
Service fee	7,098,408	8,087,383
Commissions	5,181,320	5,086,898
Loss control	665,243	3,571,830
Premium audits	480,000	480,000
Other operating expenses	<u>2,538,354</u>	<u>2,175,029</u>
Total expenses	39,004,772	41,091,152
Income before dividends declared to members and income tax expense	46,734,060	28,684,588
Dividends declared to members	<u>17,000,000</u>	<u>20,000,000</u>
Income before income tax benefit	29,734,060	8,684,588
Income tax expense	<u>6,026,761</u>	<u>1,376,686</u>
Net income	23,707,299	7,307,902
Other comprehensive income - before tax		
Unrealized (losses) gains on investments		
Unrealized holding (losses) gains arising during the year	(4,787,483)	707,147
Reclassification adjustments for gains included in net income	<u>(108,268)</u>	<u>(78,161)</u>
Other comprehensive (loss) income before tax	(4,895,751)	628,986
Income tax benefit (expense) relative to other comprehensive (loss) income, net	<u>1,028,108</u>	<u>(132,087)</u>
Other comprehensive (loss) income, net of tax	<u>(3,867,643)</u>	<u>496,899</u>
Total comprehensive income	<u>\$ 19,839,656</u>	<u>\$ 7,804,801</u>

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Changes in Fund Balance
Years Ended December 31, 2021 and 2020

	<u>Retained earnings</u>	<u>Accumulated other comprehensive income (loss), net</u>	<u>Fund balance</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	<u>-</u>	<u>496,899</u>	<u>496,899</u>
Balance at December 31, 2020	99,641,724	1,214,058	100,855,782
Net income	23,707,299	-	23,707,299
Other comprehensive loss, net tax	<u>-</u>	<u>(3,867,643)</u>	<u>(3,867,643)</u>
Balance at December 31, 2021	<u>\$ 123,349,023</u>	<u>\$ (2,653,585)</u>	<u>\$ 120,695,438</u>

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Net income	\$ 23,707,299	\$ 7,307,902
Adjustments to reconcile net income to net cash provided by operating activities		
Dividends declared to members	17,000,000	20,000,000
Change in unrealized gains on equity securities	(30,696,314)	(11,241,702)
Loss (gain) on sale of investments	218,532	(2,888,505)
Deferred income taxes	5,903,364	2,313,685
Amortization of investment premiums and discounts, net	946,681	597,248
Changes in assets and liabilities		
Premiums receivable	541,467	(429,914)
Aggregate excess insurance	(10,007)	14,652
Specific excess insurance	(2,803,875)	(1,522,246)
Accrued interest	139,987	575,178
Prepaid insurance	(103,716)	184,042
Income taxes receivable	891,421	5,045,825
Estimated liability for claims	(4,338,186)	(8,082,019)
Premiums refundable	(319,673)	(100,688)
Service fee and other fees payable	238,499	(283,226)
Member deposits	(404,537)	(286,084)
Tax assessments collected on premiums	133,475	(60,484)
	<u>11,044,417</u>	<u>11,143,664</u>
Net cash provided by operating activities	11,044,417	11,143,664
Cash flows from investing activities		
Purchases of investments	(131,578,552)	(211,696,970)
Proceeds from maturities and sales of investments	92,989,670	259,166,354
	<u>(38,588,882)</u>	<u>47,469,384</u>
Net cash (used in) provided by investing activities	(38,588,882)	47,469,384
Cash flows from financing activities		
Payment of dividends to members	(17,389,467)	(12,126,984)
	<u>(17,389,467)</u>	<u>(12,126,984)</u>
Net (decrease) increase in cash and cash equivalents	(44,933,932)	46,486,064
Cash and cash equivalents - beginning of year	69,038,695	22,552,631
	<u>69,038,695</u>	<u>22,552,631</u>
Cash and cash equivalents - end of year	<u>\$ 24,104,763</u>	<u>\$ 69,038,695</u>

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements
Years Ended December 31, 2021 and 2020

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: 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 income and comprehensive income. The associated deferred tax expense on the periodic change in fair value recognized is included in the provision for income 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 2021 and 2020, 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, 2021 and 2020

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:

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Investment securities				
U.S. Treasury notes and bonds	\$ -	\$ 72,748,815	\$ -	\$ 72,748,815
U.S. special revenue issuer obligations	-	166,734,205	-	166,734,205
Domestic common stock	132,154,250	-	-	132,154,250
Mutual funds	27,732,366	-	-	27,732,366
Corporate obligations	-	22,055,290	-	22,055,290
	<u>\$ 159,886,616</u>	<u>\$ 261,538,310</u>	<u>\$ -</u>	<u>\$ 421,424,926</u>
	Level 1	Level 2	Level 3	Total
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>\$ 131,091,187</u>	<u>\$ 227,109,507</u>	<u>\$ -</u>	<u>\$ 358,200,694</u>

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

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, 2021 and 2020. During the year ended December 31, 2021, the discounted interest rate was modified to 1.5%. The estimated liability for claims is discounted using an interest rate of 1.5% and 1.8% at December 31, 2021 and 2020, respectively.
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 available for sale fixed income investments, net of 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, 2021 and 2020

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.

Note C - Investments

Investments at December 31, 2021 and 2020, include the following:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
December 31, 2021				
U.S. Treasury notes and bonds	\$ 72,915,284	\$ 67,395	\$ (233,864)	\$ 72,748,815
U.S. special revenue issuer obligations	170,370,573	48,812	(3,685,180)	166,734,205
Domestic common stock	45,388,349	86,968,174	(202,273)	132,154,250
Mutual funds	10,565,066	17,593,758	(426,458)	27,732,366
Corporate obligations	21,611,423	443,867	-	22,055,290
	<u>\$ 320,850,695</u>	<u>\$ 105,122,006</u>	<u>\$ (4,547,775)</u>	<u>\$ 421,424,926</u>
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
	<u>\$ 283,427,026</u>	<u>\$ 76,866,751</u>	<u>\$ (2,093,083)</u>	<u>\$ 358,200,694</u>

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

Note C - Investments (Continued)

The components of net investment income as of December 31, 2021 and 2020, are presented below:

	<u>2021</u>	<u>2020</u>
Investment income		
Interest on fixed income securities	\$ 2,610,677	\$ 4,349,157
Dividends on equity securities	2,668,606	2,443,195
Other investment income	3,584	32,345
Less investment expenses	<u>(749,199)</u>	<u>(659,284)</u>
Net investment income	<u>\$ 4,533,668</u>	<u>\$ 6,165,413</u>

The components of net realized investment gains (losses) and equity valuation increases included in earnings for the years ended December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Net realized investment gains (losses) and equity valuation increases		
Fixed income		
Gross realized gains	\$ 116,410	\$ 111,770
Gross realized losses	<u>(8,142)</u>	<u>(7,931)</u>
Net fixed income investment gains	108,268	103,839
Equity securities		
Gross unrealized gains and losses recorded during the year on equity securities still held at December 31, 2021	30,696,314	11,241,702
Gross realized gains	75,979	4,469,558
Gross realized losses	<u>(402,779)</u>	<u>(1,684,892)</u>
Net equity investment gains	<u>30,369,514</u>	<u>14,026,368</u>
Net realized investment gains and equity valuation increases	<u>\$ 30,477,782</u>	<u>\$ 14,130,207</u>

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

Note C - Investments (Continued)

Debt securities held as of December 31, 2021, have contracted maturities as follows:

	Amortized cost	Estimated fair value
Within 1 year	\$ 59,724,000	\$ 59,786,240
After 1 year through 5 years	130,768,139	129,851,580
After 5 years through 10 years	74,405,141	71,900,490
After 10 years	-	-
	<u>\$ 264,897,280</u>	<u>\$ 261,538,310</u>

In lieu of purchasing a bond, as required by the Kentucky Department of Insurance ("DOI"), the Fund has pledged approximately \$29,259,578 and \$29,201,229 of investments, at fair value, as collateral for the payment of workers' compensation claims as of December 31, 2021 and 2020, respectively. The amount pledged is to remain under the joint control of the Fund and the DOI 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:

	2021					
	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	\$ 60,572,455	\$ (196,532)	\$ 10,109,000	\$ (37,332)	\$ 70,681,455	\$ (233,864)
Common stocks	-	-	1,339,734	(202,273)	1,339,734	(202,273)
Mutual funds	-	-	1,613,137	(426,458)	1,613,137	(426,458)
U.S. special revenue issuer obligations	118,959,575	(2,427,398)	35,720,880	(1,257,782)	154,680,455	(3,685,180)
Total	<u>\$ 179,532,030</u>	<u>\$ (2,623,930)</u>	<u>\$ 48,782,751</u>	<u>\$ (1,923,845)</u>	<u>\$ 228,314,781</u>	<u>\$ (4,547,775)</u>
	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	39,668,250	(351,243)	-	-	39,668,250	(351,243)
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>

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, 2021 and 2020

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, 2021, 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, 2021 and 2020, aggregate excess insurance receivables with an undiscounted value of \$526,662 were associated primarily with one excess insurer.

Specific excess reinsurance also provides coverage for each individual event loss in excess of certain amounts (\$3,500,000 and \$3,000,000 self-insured retention at December 31, 2021 and 2020, respectively). At December 31, 2021 and 2020, specific excess insurance receivables had an undiscounted value of \$43,791,330 and \$41,530,046, respectively, and 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, 2021 and 2020, is 1.5% and 1.8%, respectively. The discount rate is evaluated annually and is determined by management and the Fund's actuary. The tabular discounts were \$4,830,661 and \$5,383,259 as of December 31, 2021 and 2020, respectively.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

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, 2020 through December 31, 2021:

	<u>2021</u>	<u>2020</u>
Balance as of January 1	\$ 273,113,628	\$ 281,195,647
Less excess insurance receivables	<u>36,673,449</u>	<u>35,165,855</u>
Net balance as of January 1	236,440,179	246,029,792
Incurred related to		
Current year	49,155,200	48,184,600
Decrease in prior years' estimates	<u>(26,113,753)</u>	<u>(26,494,588)</u>
Total incurred	23,041,447	21,690,012
Paid related to		
Current year	6,965,186	6,826,972
Prior years	<u>23,228,329</u>	<u>24,452,653</u>
Total paid losses and LAE	<u>30,193,515</u>	<u>31,279,625</u>
Net balance as of December 31	229,288,111	236,440,179
Plus excess insurance receivables	<u>39,487,331</u>	<u>36,673,449</u>
Balance as of December 31	<u>\$ 268,775,442</u>	<u>\$ 273,113,628</u>

To reflect the time value of money, the Fund has discounted both case reserves and IBNR reserves. The tabular discounts were \$32,880,497 and \$40,090,074 as of December 31, 2021 and 2020, respectively. The Fund recognized discount accretion of approximately \$6,700,000 and \$2,000,000 for 2021 and 2020, respectively, included in claims incurred on the statements of income and comprehensive income.

The following required supplementary information on pages 18 and 19 includes incurred and paid loss development as of December 31, 2021, 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, 2021 and 2020

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 (the "Code"), 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, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets (liabilities)		
Estimated liability for claims	\$ 2,227,295	\$ 1,684,432
Net unrealized gains on investments	<u>(21,168,902)</u>	<u>(15,750,783)</u>
Net deferred tax liability	<u>\$ (18,941,607)</u>	<u>\$ (14,066,351)</u>

Income tax expense (benefit) for the years ended December 31, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Current year expense (benefit)	\$ 123,397	\$ (936,999)
Deferred expense	<u>5,903,364</u>	<u>2,313,685</u>
Income tax expense	<u>\$ 6,026,761</u>	<u>\$ 1,376,686</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, 2021, and 2020, there were no recorded uncertain tax positions. The Fund believes it is no longer subject to income tax examinations for years prior to 2018.

Note G - Related Party Transactions

Service fee expenses to Ladegast & Heffner Claims Service, Inc. were \$7,098,408 and \$ 8,087,383, for the years ended December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, service fee liabilities of \$1,111,141 and \$1,116,001, 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, 2021 and 2020. During 2020, the Fund awarded an additional service fee to Ladegast & Heffner of \$101,667 monthly; the service fee award began January 2019 and ended December 2020.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2021 and 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, 2021 and 2020.

In 2021 and 2020, the Fund declared dividends of \$17,000,000 and \$ 20,000,000, 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, 2021 and 2020**

Workers compensation

Accident year	Ultimate loss (including IBNR) and allocated claim adjustment expenses, net of reinsurance											As of	Number of reported claims
											December 31, 2021	(2)	
	2012	2013	2014		2015	2016	2017	2018	2019		2020		
Unaudited			Audited										
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	\$ 41,800,119	\$ 5,262,870		1,934
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	32,034,237	5,836,437		1,804
2014			56,148,591	56,048,310	55,496,852	52,498,680	50,702,492	48,130,311	46,634,032	45,635,664	7,379,188		1,726
2015				52,098,610	48,636,460	45,490,065	45,433,271	41,196,728	39,315,288	35,582,455	7,871,952		1,706
2016					55,501,662	51,983,275	52,004,940	48,955,058	47,356,927	44,387,453	9,368,583		1,779
2017						52,577,913	50,407,430	48,807,700	45,644,831	39,628,221	12,999,290		1,643
2018							58,574,600	52,144,500	47,846,522	43,982,160	12,587,778		1,557
2019								53,122,800	51,073,388	49,293,706	13,032,646		1,491
2020									48,184,600	44,148,074	16,628,013		1,194
2021										49,155,200	24,379,182		1,137
Total											\$ 425,647,289		

(1) Total of incurred-but-not-reported liabilities plus expected development on reported claims as of December 31, 2021.

(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											
	2012	2013	2014		2015	2016	2017	2018	2019		2020	2021
	Unaudited			Audited								
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	\$ 31,331,875		
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	24,144,102		
2014			7,280,697	17,451,006	22,424,042	25,803,730	28,215,848	29,869,306	31,210,630	31,959,059		
2015				6,758,910	12,887,596	16,032,862	17,972,982	19,649,692	20,661,236	22,123,161		
2016					8,382,041	16,841,079	21,738,503	24,161,499	25,803,973	27,182,331		
2017						6,210,014	13,063,429	16,915,721	18,975,794	20,031,399		
2018							6,965,725	15,644,433	20,444,457	23,503,073		
2019								7,083,790	14,840,292	19,967,866		
2020									6,826,972	12,897,732		
2021										6,965,186		

Total paid net of reinsurance recoveries

220,105,784

All outstanding liabilities before 2012, net of reinsurance

56,627,103

Discount on loss reserves

(32,880,497)

Liabilities for claims and claim adjustment expenses, net of reinsurance and discount

\$ 229,288,111

See accompanying independent auditor's report.

Kentucky Associated General Contractors Self Insurers' Fund
Required Supplementary Information (Continued)
Years Ended December 31, 2021 and 2020

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>2021</u>
Net outstanding liabilities	
Worker's compensation - case reserves	\$ 115,636,134
Worker's compensation - IBNR	109,857,066
Unallocated claims adjustment expenses	<u>3,794,911</u>
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance per incurred and paid loss development tables	229,288,111
Excess reinsurance recoverable on unpaid claims	
Excess specific and aggregate	22,817,334
Excess IBNR	<u>16,669,997</u>
Reinsurance recoverable on unpaid claims	39,487,331
Total liabilities for unpaid claims and claim adjustment expenses net of excess reinsurance recoverable	<u><u>\$ 268,775,442</u></u>

The following supplementary information is about the average historical claims' duration as of December 31, 2021.

<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
	17.1%	18.4%	10.9%	6.5%	4.5%	3.0%	2.7%	1.6%	1.6%	1.5%

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>2021</u>	<u>2020</u>
Carrying amount of the liabilities for unpaid claims and claim adjustment expenses presented at fair value	\$ 268,775,442	\$ 273,113,628
Aggregate amount of discount on loss reserves	32,880,497	40,090,074
Aggregate amount of discount on excess reinsurance recoverable	(4,830,661)	(5,383,259)
Range of interest rates used to discount	1.5-2%	1-2%