

Kentucky Associated General Contractors Self Insurers' Fund
Financial Statements
Years Ended December 31, 2022 and 2021

Kentucky Associated General Contractors Self Insurers' Fund
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Years Ended December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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.

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.

Change in Accounting Principle

As discussed in Note B to the financials statements, effective January 1, 2022 the Fund adopted Accounting Standards Update 2016-02, Leases (ASC 842). Our opinion is not modified with respect to this matter.

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Independent Auditor's Report (Continued)

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.

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.

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 2022 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 25, 2023

Kentucky Associated General Contractors Self Insurers' Fund
Balance Sheets
December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 22,594,351 | \$ 24,104,763 |
| Investments | | |
| Fixed maturities available-for-sale, at fair value | 228,365,444 | 261,538,310 |
| Equity securities, at fair value | 130,451,856 | 159,886,616 |
| Receivable for securities | 4,999,349 | - |
| | <u>363,816,649</u> | <u>421,424,926</u> |
| Total investments | | |
| | 363,816,649 | 421,424,926 |
| Premiums receivable | 7,118,714 | 7,901,587 |
| Amounts recoverable from excess insurer | 43,270,267 | 49,022,444 |
| Accrued interest and dividends | 1,122,960 | 797,385 |
| Income taxes receivable | - | 5,534,166 |
| Prepaid reinsurance | 2,063,894 | 1,265,276 |
| Fixed assets, net | 501,912 | - |
| Operating lease right-of-use asset | 880,523 | - |
| Funds held in trust | 435,000 | - |
| Other assets | 55,771 | - |
| | <u>441,860,041</u> | <u>510,050,547</u> |
| Total assets | | |
| | \$ 441,860,041 | \$ 510,050,547 |
| Liabilities and fund balance | | |
| Liabilities | | |
| Estimated liability for claims | | |
| Incurred and reported | \$ 120,163,156 | \$ 141,255,251 |
| Incurred but not reported | 105,841,122 | 133,674,039 |
| Unallocated loss-adjustment expense | 2,832,200 | 3,381,266 |
| | <u>228,836,478</u> | <u>278,310,556</u> |
| Total estimated liability for claims | | |
| | 228,836,478 | 278,310,556 |
| Service fee and other payables | 6,991,540 | 5,171,623 |
| Member deposits | 8,691,509 | 8,799,214 |
| Tax assessments collected on premiums | 941,834 | 1,005,164 |
| Deferred tax liability, net | 11,649,738 | 18,941,607 |
| Income taxes payable | 1,869,076 | - |
| Lease liability | 880,523 | - |
| Accrued member dividends | 58,660,060 | 77,126,945 |
| | <u>318,520,758</u> | <u>389,355,109</u> |
| Total liabilities | | |
| | 318,520,758 | 389,355,109 |
| Fund balance | | |
| Retained earnings | 142,730,517 | 123,349,023 |
| Accumulated other comprehensive loss, net of income taxes | (19,391,234) | (2,653,585) |
| | <u>123,339,283</u> | <u>120,695,438</u> |
| Total fund balance | | |
| | 123,339,283 | 120,695,438 |
| Total liabilities and fund balance | <u>\$ 441,860,041</u> | <u>\$ 510,050,547</u> |

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Income and Comprehensive Income
Years Ended December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|----------------------|
| Revenues | | |
| Premiums earned | \$ 54,155,416 | \$ 52,104,770 |
| Premiums ceded to excess insurer | <u>(2,150,000)</u> | <u>(1,930,018)</u> |
| Net premiums earned | 52,005,416 | 50,174,752 |
| Net investment income | 5,127,947 | 4,533,668 |
| Net realized investment losses | (129,214) | (218,532) |
| Unrealized (losses) gains on equity securities | (21,102,298) | 30,696,314 |
| Other | <u>364,872</u> | <u>552,630</u> |
| Total revenues | 36,266,723 | 85,738,832 |
| Expenses | | |
| Claims incurred | (15,126,151) | 23,041,447 |
| Service fee | 10,121,610 | 7,098,408 |
| Commissions | 5,589,460 | 5,181,320 |
| Loss control | 696,904 | 665,243 |
| Premium audits | 450,000 | 480,000 |
| Guaranty fund assessment | 390,786 | - |
| Other operating expenses | <u>2,897,782</u> | <u>2,538,354</u> |
| Total expenses | <u>5,020,391</u> | <u>39,004,772</u> |
| Income before dividends declared to members and income tax expense | 31,246,332 | 46,734,060 |
| Dividends declared to members | <u>6,984,588</u> | <u>17,000,000</u> |
| Income before income tax expense | 24,261,744 | 29,734,060 |
| Income tax expense | <u>4,880,250</u> | <u>6,026,761</u> |
| Net income | 19,381,494 | 23,707,299 |
| Other comprehensive loss - before tax | | |
| Unrealized losses on available-for-sale investments | | |
| Unrealized holding losses arising during the year | (21,501,963) | (4,787,483) |
| Reclassification adjustments for (losses) gains included in net income | <u>315,066</u> | <u>(108,268)</u> |
| Other comprehensive loss before tax | (21,186,897) | (4,895,751) |
| Income tax benefit relative to other comprehensive loss, net | <u>4,449,248</u> | <u>1,028,108</u> |
| Other comprehensive loss, net of tax | <u>(16,737,649)</u> | <u>(3,867,643)</u> |
| Total comprehensive income | <u>\$ 2,643,845</u> | <u>\$ 19,839,656</u> |

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Changes in Fund Balance
Years Ended December 31, 2022 and 2021

| | <u>Retained earnings</u> | <u>Accumulated other comprehensive income (loss), net</u> | <u>Fund balance</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 | 123,349,023 | (2,653,585) | 120,695,438 |
| Net income | 19,381,494 | - | 19,381,494 |
| Other comprehensive loss, net tax | <u>-</u> | <u>(16,737,649)</u> | <u>(16,737,649)</u> |
| Balance at December 31, 2022 | <u><u>\$ 142,730,517</u></u> | <u><u>\$ (19,391,234)</u></u> | <u><u>\$ 123,339,283</u></u> |

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities | | |
| Net income | \$ 19,381,494 | \$ 23,707,299 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Dividends declared to members | 6,984,588 | 17,000,000 |
| Change in unrealized losses (gains) on equity securities | 21,102,298 | (30,696,314) |
| Loss on sale of investments | 129,214 | 218,532 |
| Deferred income taxes | (2,842,621) | 5,903,364 |
| Amortization of investment premiums and discounts, net | 180,362 | 946,681 |
| Changes in assets and liabilities | | |
| Premiums receivable | 782,873 | 541,467 |
| Amounts recoverable from excess insurer | 5,752,177 | (2,813,882) |
| Accrued interest and dividends | (325,575) | 139,987 |
| Prepaid reinsurance | (798,618) | (103,716) |
| Operating lease right-of-use asset | (880,523) | - |
| Funds held in trust | (435,000) | - |
| Other assets | (55,771) | - |
| Service fee and other payables | 1,710,681 | (81,174) |
| Member deposits | (107,705) | (404,537) |
| Tax assessments collected on premiums | (63,330) | 133,475 |
| Income taxes payable | 7,403,242 | 891,421 |
| Leases liability | 880,523 | - |
| Estimated liability for claims | <u>(49,474,078)</u> | <u>(4,338,186)</u> |
| Net cash provided by operating activities | 9,324,231 | 11,044,417 |
| Cash flows from investing activities | | |
| Purchases of fixed assets | (392,676) | - |
| Purchases of investments | (55,325,017) | (131,578,552) |
| Proceeds from maturities and sales of investments | <u>70,334,523</u> | <u>92,989,670</u> |
| Net cash provided by (used in) investing activities | 14,616,830 | (38,588,882) |
| Cash flows from financing activities | | |
| Payment of dividends to members | <u>(25,451,473)</u> | <u>(17,389,467)</u> |
| Net decrease in cash and cash equivalents | (1,510,412) | (44,933,932) |
| Cash and cash equivalents - beginning of year | <u>24,104,763</u> | <u>69,038,695</u> |
| Cash and cash equivalents - end of year | <u>\$ 22,594,351</u> | <u>\$ 24,104,763</u> |
| Supplementary disclosures of cash flow information | | |
| Cash paid (received) for income taxes | \$ 319,627 | \$ (768,024) |
| Fixed assets in accounts payable | 109,236 | - |
| Operating lease right-of-use assets and liabilities resulting from implementation of <i>Leases, Topic 842</i> | 888,607 | - |

See accompanying notes.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements
Years Ended December 31, 2022 and 2021

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 seven construction industry associations in Kentucky. Claims administration and management services were provided by Ladegast & Heffner Claims Service, Inc. ("L&H") under a contract that was terminated effective February 15, 2023. L&H was paid a service fee based on a percentage of premiums earned. Effective February 16, 2023 all administrative and management services are performed by management of the Fund.

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. Fixed Assets: Fixed assets are stated at cost less accumulated depreciation. Depreciation is determined principally by the straight-line method based on the estimated useful lives of the assets which range from 3 to 10 years. Expenditures for major betterments are capitalized and expenditures for repairs and maintenance are charged to operations as incurred. When capitalized assets are retired or sold, the cost and related accumulated depreciation or amortization is removed from the accounts, with any gain or loss reflected in operations. Depreciation expense for the year ended December 31, 2022 was \$13,281.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

Note B - Significant Accounting Policies (Continued)

5. 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 2022 and 2021, the Fund did not record any other-than-temporary impairments.

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.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

Note B - Significant Accounting Policies (Continued)

5. Investments (Continued): 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, 2022 | | | | |
| Investment securities | | | | |
| U.S. Treasury notes and bonds | \$ - | \$ 62,628,670 | \$ - | \$ 62,628,670 |
| U.S. special revenue issuer obligations | - | 151,663,263 | - | 151,663,263 |
| Domestic common stock | 112,451,396 | - | - | 112,451,396 |
| Mutual funds | 18,000,460 | - | - | 18,000,460 |
| Corporate obligations | - | 14,073,511 | - | 14,073,511 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 130,451,856</u> | <u>\$ 228,365,444</u> | <u>\$ -</u> | <u>\$ 358,817,300</u> |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| 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> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 159,886,616</u> | <u>\$ 261,538,310</u> | <u>\$ -</u> | <u>\$ 421,424,926</u> |

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.

6. 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, 2022 and 2021. The estimated liability for claims is discounted using an interest rate of 2.5% and 1.5% at December 31, 2022 and 2021, respectively.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

Note B - Significant Accounting Policies (Continued)

7. 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.
8. 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.
9. Member Deposits: Member deposits represent 25% of each member's estimated normal premium at the inception of membership in the Fund. 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.
10. Leases: In February 2016, the ("FASB") issued ASU 2016-02, *Leases* ("ASU Topic 842"). The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the balance sheet at the date of lease commencement. Leases are classified as either finance or operating. This distinction is relevant for the pattern of expense recognition in the statement of operations. The Fund has adopted this standard as of December 31, 2022 and recorded approximately \$880,000 in operating lease right-of-use asset and operating lease liability as of this date, discounted using a discount rate of 3.84%. The Fund has developed a methodology to estimate right-of-use ("ROU") assets and lease liabilities based on the preset value of contractual lease payments. There were no financing leases for either 2022 or 2021.

The Fund's leases include buildings and facilities housing the operations and corporate offices of the Company.

The Fund has elected to use a risk-free rate based on the information available at the lease commencement date in determining the present value of lease payments. The lease terms may include options to extend or terminate the lease, and the Fund evaluates and includes these lease term considerations when it is reasonably certain that the Fund will exercise that option. Operating lease expense is recognized on a straight-line basis over the lease term.

The Fund's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Fund has elected to apply the short-term lease exemption to all lease agreements in place; in 2022, the Fund did not have any short-term leases (i.e. terms less than 12 months).

The standard had a material impact on the consolidated balance sheet but did not have an impact on the income statement, nor statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

Note B - Significant Accounting Policies (Continued)

11. 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 on available for sale fixed income investments, net of taxes.
12. 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.
13. 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.
14. Reclassifications: Certain amounts presented in the accompanying 2021 financial statements have been reclassified to conform to the 2022 presentation. These reclassifications had no net impact on either total fund balance or income and comprehensive income.

Note C - Investments

Investments at December 31, 2022 and 2021, include the following:

| | <u>Amortized cost</u> | <u>Gross unrealized gains</u> | <u>Gross unrealized losses</u> | <u>Estimated fair value</u> |
|--|---------------------------|---------------------------------------|--|---------------------------------|
| December 31, 2022 | | | | |
| U.S. Treasury notes and bonds | \$ 64,019,845 | \$ - | \$ (1,391,175) | \$ 62,628,670 |
| U.S. special revenue issuer obligations | 174,402,728 | 14,874 | (22,754,339) | 151,663,263 |
| Domestic common stock | 40,444,681 | 72,316,132 | (309,417) | 112,451,396 |
| Mutual funds | 6,246,395 | 11,754,065 | - | 18,000,460 |
| Corporate obligations | 14,488,738 | 7,674 | (422,901) | 14,073,511 |
| Total | <u>\$ 299,602,387</u> | <u>\$ 84,092,745</u> | <u>\$ (24,877,832)</u> | <u>\$ 358,817,300</u> |
| 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 | 44,458,472 | 87,898,051 | (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 |
| Total | <u>\$ 319,920,818</u> | <u>\$ 106,051,883</u> | <u>\$ (4,547,775)</u> | <u>\$ 421,424,926</u> |

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

Note C - Investments (Continued)

The components of net investment income as of December 31, 2022 and 2021, are presented below:

| | <u>2022</u> | <u>2021</u> |
|-------------------------------------|---------------------|---------------------|
| Investment income | | |
| Interest on fixed income securities | \$ 2,846,342 | \$ 2,610,677 |
| Dividends on equity securities | 2,875,733 | 2,668,606 |
| Other investment income | 128,102 | 3,584 |
| Less investment expenses | <u>(722,230)</u> | <u>(749,199)</u> |
| Net investment income | <u>\$ 5,127,947</u> | <u>\$ 4,533,668</u> |

The components of net realized investment gains (losses) and equity valuation increases included in earnings for the years ended December 31, 2022 and 2021, are as follows:

| | <u>2022</u> | <u>2021</u> |
|---|------------------------|----------------------|
| Net realized investment gains (losses) and equity valuation increases | | |
| Fixed income | | |
| Gross realized gains | \$ 23,464 | \$ 116,410 |
| Gross realized losses | <u>(338,530)</u> | <u>(8,142)</u> |
| Net fixed income investment (losses) gains | (315,066) | 108,268 |
| Equity securities | | |
| Gross unrealized gains and losses recorded during the year on equity securities still held at December 31, 2022 | (21,102,298) | 30,696,314 |
| Gross realized gains | 971,543 | 75,979 |
| Gross realized losses | <u>(785,691)</u> | <u>(402,779)</u> |
| Net equity investment (losses) gains | <u>(20,916,446)</u> | <u>30,369,514</u> |
| Net realized investment (losses) gains and equity valuation increases | <u>\$ (21,231,512)</u> | <u>\$ 30,477,782</u> |

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

Note C - Investments (Continued)

Debt securities held as of December 31, 2022, have contracted maturities as follows:

| | <u>Amortized cost</u> | <u>Estimated fair value</u> |
|--------------------------------|---------------------------|---------------------------------|
| Within 1 year | \$ 53,064,771 | \$ 52,452,052 |
| After 1 year through 5 years | 122,460,234 | 112,282,190 |
| After 5 years through 10 years | <u>77,386,306</u> | <u>63,631,202</u> |
| | <u>\$ 252,911,311</u> | <u>\$ 228,365,444</u> |

In lieu of purchasing a bond, as required by the Kentucky Department of Insurance ("DOI"), the Fund has pledged approximately \$29,310,023 and \$29,259,578 of investments, at fair value, as collateral for the payment of workers' compensation claims as of December 31, 2022 and 2021, 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:

| | 2022 | | | | | |
|---|----------------------------|------------------------------|--------------------------|------------------------------|-----------------------|------------------------------|
| | <u>Less than 12 months</u> | | <u>12 months or more</u> | | <u>Total</u> | |
| | <u>Fair value</u> | <u>Unrealized losses</u> | <u>Fair value</u> | <u>Unrealized losses</u> | <u>Fair value</u> | <u>Unrealized losses</u> |
| U.S. Treasury notes and bonds | \$ 20,822,087 | \$ (170,418) | \$ 41,806,583 | \$ (1,220,757) | \$ 62,628,670 | \$ (1,391,175) |
| Common stocks | 1,429,220 | (309,417) | - | - | 1,429,220 | (309,417) |
| Corporate obligations | 13,080,970 | (413,618) | 992,540 | (9,283) | 14,073,510 | (422,901) |
| U.S. special revenue issuer obligations | <u>23,386,790</u> | <u>(644,400)</u> | <u>128,276,474</u> | <u>(22,109,939)</u> | <u>151,663,264</u> | <u>(22,754,339)</u> |
| Total | <u>\$ 58,719,067</u> | <u>\$ (1,537,853)</u> | <u>\$ 171,075,597</u> | <u>\$ (23,339,979)</u> | <u>\$ 229,794,664</u> | <u>\$ (24,877,832)</u> |
| | 2021 | | | | | |
| | <u>Less than 12 months</u> | | <u>12 months or more</u> | | <u>Total</u> | |
| | <u>Fair value</u> | <u>Unrealized losses</u> | <u>Fair value</u> | <u>Unrealized losses</u> | <u>Fair value</u> | <u>Unrealized losses</u> |
| 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 | <u>118,959,575</u> | <u>(2,427,398)</u> | <u>35,720,880</u> | <u>(1,257,782)</u> | <u>154,680,455</u> | <u>(3,685,180)</u> |
| 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> |

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 impaired.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

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, 2022, 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, aggregate excess insurance receivables with an undiscounted value was \$526,662; the receivable balances were reviewed by Management during 2022 and determined not collectible and subsequently written off.

Specific excess reinsurance also provides coverage for each individual event loss in excess of certain amounts (\$3,500,000 self-insured retention at December 31, 2022 and 2021, respectively). At December 31, 2022 and 2021, specific excess insurance receivables on known unpaid and paid claims had an undiscounted value of \$22,154,724 and \$25,619,118 (including \$562,662 above for 2021), respectively, and were associated primarily with one excess insurer. At December 31, 2022 and 2021, the Fund held approximately \$29,400,460 of excess insurance recoverable on incurred but not reported claims reserves. 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 on incurred but not reported claims. The discount rate at December 31, 2022 and 2021, was 2.5% and 1.5%, respectively. The discount rate is evaluated annually and is determined by management and the Fund's actuary. The tabular discounts were \$8,284,917 and \$5,997,134 as of December 31, 2022 and 2021, respectively.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

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, 2021 through December 31, 2022:

| | <u>2022</u> | <u>2021</u> |
|------------------------------------|------------------------------|------------------------------|
| Balance as of January 1 | \$ 278,310,556 | \$ 273,113,628 |
| Less excess insurance receivables | <u>49,022,445</u> | <u>36,673,449</u> |
| Net balance as of January 1 | 229,288,111 | 236,440,179 |
| Incurred related to | | |
| Current year | 41,021,058 | 49,155,200 |
| Decrease in prior years' estimates | <u>(56,147,209)</u> | <u>(26,113,753)</u> |
| Total incurred | (15,126,151) | 23,041,447 |
| Paid related to | | |
| Current year | 5,754,981 | 6,965,186 |
| Prior years | <u>22,840,768</u> | <u>23,228,329</u> |
| Total paid losses and LAE | <u>28,595,749</u> | <u>30,193,515</u> |
| Net balance as of December 31 | 185,566,211 | 229,288,111 |
| Plus excess insurance receivables | <u>43,270,267</u> | <u>49,022,445</u> |
| Balance as of December 31 | <u><u>\$ 228,836,478</u></u> | <u><u>\$ 278,310,556</u></u> |

To reflect the time value of money, the Fund has discounted both case reserves and IBNR reserves. The tabular discounts were \$45,877,180 and \$32,880,497 as of December 31, 2022 and 2021, respectively. The Fund recognized discount changes of approximately (\$9,500,000) and \$6,700,000 for 2022 and 2021, respectively, included in claims incurred on the statements of income and comprehensive income.

The following required supplementary information on pages 20 and 21 includes incurred and paid loss development as of December 31, 2022, 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, 2022 and 2021

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, 2022 and 2021, are as follows:

| | <u>2022</u> | <u>2021</u> |
|-------------------------------------|------------------------|------------------------|
| Deferred tax assets (liabilities) | | |
| Estimated liability for claims | \$ 632,934 | \$ 2,227,295 |
| Capital loss limitation | 27,135 | - |
| Allowance for doubtful accounts | 117,537 | - |
| Right of use liability | 184,910 | - |
| Right of use asset | (184,910) | - |
| Fixed assets | (105,401) | - |
| Accrued dividend received deduction | (33,773) | - |
| Net unrealized gains on investments | <u>(12,288,170)</u> | <u>(21,168,902)</u> |
| Net deferred tax liability | <u>\$ (11,649,738)</u> | <u>\$ (18,941,607)</u> |

Income tax expense (benefit) for the years ended December 31, 2022 and 2021, consist of the following:

| | <u>2022</u> | <u>2021</u> |
|----------------------------|---------------------|---------------------|
| Current year expense | \$ 7,722,871 | \$ 123,397 |
| Deferred (benefit) expense | <u>(2,842,621)</u> | <u>5,903,364</u> |
| Income tax expense | <u>\$ 4,880,250</u> | <u>\$ 6,026,761</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, 2022, and 2021, there were no recorded uncertain tax positions. The Fund believes it is no longer subject to income tax examinations for years prior to 2019.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

Note G - Related Party Transactions

Service fee expenses to Ladegast & Heffner Claims Service, Inc. ("L&H") were \$10,028,105 and \$7,098,408, for the years ended December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, service fee liabilities of \$2,751,965 and \$1,111,141, 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, 2022 and 2021. During 2022, the Fund entered into a termination agreement with L&H whereby the services would end on February 15, 2023. In lieu of their percentage of premium fees, L&H was compensated \$9.2 million payable in two installments. The last installment was paid on February 15, 2023.

Note H - Leases

The Fund has a lease for office space in Louisville, Kentucky. The non-cancellable lease expires in 2033 (which includes an option to extend the lease for up to 5 years). The lease commenced in July 2023. The weighted average remaining lease term and discount rate at December 31, 2022 was 10 years and 3.84%.

Future minimum lease payments under the agreement are as follows:

| | <u>Operating</u> |
|-------------------------------------|--------------------------|
| 2023 | \$ 58,001 |
| 2024 | 100,601 |
| 2025 | 102,629 |
| 2026 | 104,696 |
| 2027 | 108,939 |
| Thereafter | <u>614,252</u> |
| Total future minimum lease payments | 1,089,118 |
| Less imputed interest | <u>208,595</u> |
| Total operating lease liability | <u><u>\$ 880,523</u></u> |

Note I - Employee Benefit Plan

The Fund sponsors a 401(k) plan for the benefit of its employees to which the Company may make contributions at the discretion of management. For the year ending December 31, 2022, the Company contributed approximately \$35,000 to the 401(k) plan.

Note J - Contingency/Guaranty Fund

The Fund is required by statute to participate in the Kentucky Group Self-Insured Guaranty Fund ("Guaranty Fund"). The Fund was notified of a required additional funding assessment covering the Guaranty Fund assessment year of July 1, 2022 through June 30, 2023 equal to .75% of the Fund's premium. The Fund remitted the assessment to the Guaranty Fund totaling \$390,786 as of December 31, 2022. The Fund records all Guaranty Fund assessments upon notification of such assessments.

Kentucky Associated General Contractors Self Insurers' Fund
Notes to Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

Note K - 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, 2022 and 2021.

In 2022 and 2021, the Fund declared dividends of \$6,984,588 and \$17,000,000, 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, 2022 and 2021**

Workers compensation

| Accident year | Ultimate loss (including IBNR) and allocated claim adjustment expenses, net of reinsurance | | | | | | | | | | As of December 31, 2022 | |
|---------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------------------|-------------------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | IBNR (1) | Number of reported claims (2) |
| | Unaudited | | | | | Audited | | | | | | unaudited |
| 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 | \$ 30,890,483 | \$ 27,867,247 | \$ 1,605,482 | 1,804 |
| 2014 | | 56,148,591 | 56,048,310 | 55,496,852 | 52,498,680 | 50,702,492 | 48,130,311 | 46,634,032 | 44,189,581 | 41,523,541 | 3,120,847 | 1,725 |
| 2015 | | | 52,098,610 | 48,636,460 | 45,490,065 | 45,433,271 | 41,196,728 | 39,315,288 | 34,039,806 | 30,578,961 | 2,908,068 | 1,706 |
| 2016 | | | | 55,501,662 | 51,983,275 | 52,004,940 | 48,955,058 | 47,356,927 | 42,551,512 | 39,252,234 | 4,255,677 | 1,777 |
| 2017 | | | | | 52,577,913 | 50,407,430 | 48,807,700 | 45,644,831 | 37,080,778 | 32,453,120 | 6,098,978 | 1,643 |
| 2018 | | | | | | 58,574,600 | 52,144,500 | 47,846,522 | 41,515,363 | 36,513,358 | 6,636,080 | 1,556 |
| 2019 | | | | | | | 53,122,800 | 51,073,388 | 46,739,727 | 43,210,701 | 7,872,611 | 1,490 |
| 2020 | | | | | | | | 48,184,600 | 40,889,519 | 36,873,119 | 9,775,407 | 1,204 |
| 2021 | | | | | | | | | 44,377,665 | 42,895,889 | 15,620,012 | 1,172 |
| 2022 | | | | | | | | | | 42,701,380 | 23,072,028 | 1,058 |

Total

\$ 373,869,550

(1) Total of incurred-but-not-reported liabilities plus expected development on reported claims as of December 31, 2022.

(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 | | | | | | | | | |
|---------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| | Unaudited | | | | | Audited | | | | |
| 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 | \$ 24,529,703 |
| 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 | 33,327,635 |
| 2015 | | | 6,758,910 | 12,887,596 | 16,032,862 | 17,972,982 | 19,649,692 | 20,661,236 | 22,123,161 | 22,838,120 |
| 2016 | | | | 8,382,041 | 16,841,079 | 21,738,503 | 24,161,499 | 25,803,973 | 27,182,331 | 28,754,914 |
| 2017 | | | | | 6,210,014 | 13,063,429 | 16,915,721 | 18,975,794 | 20,031,399 | 20,582,998 |
| 2018 | | | | | | 6,965,725 | 15,644,433 | 20,444,457 | 23,503,073 | 25,935,439 |
| 2019 | | | | | | | 7,083,790 | 14,840,292 | 19,967,866 | 22,481,126 |
| 2020 | | | | | | | | 6,826,972 | 12,897,732 | 16,301,814 |
| 2021 | | | | | | | | | 6,965,186 | 13,227,737 |
| 2022 | | | | | | | | | | 5,754,981 |

Total paid net of reinsurance recoveries

213,734,467

All outstanding liabilities before 2013, net of reinsurance

63,023,391

Discount on loss reserves

(37,592,263)

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

\$ 185,566,211

See accompanying independent auditor's report.

**Kentucky Associated General Contractors Self Insurers' Fund
Required Supplementary Information (Continued)
Years Ended December 31, 2022 and 2021**

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, 2022</u> | <u>December 31, 2021</u> |
|--|----------------------------------|----------------------------------|
| Net outstanding liabilities | | |
| Worker's compensation - case reserves | \$ 101,383,472 | \$ 115,636,134 |
| Worker's compensation - IBNR | 81,350,539 | 109,857,067 |
| Unallocated claims adjustment expenses | <u>2,832,200</u> | <u>3,794,911</u> |
| Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance per incurred and paid loss development tables | 185,566,211 | 229,288,112 |
| Excess reinsurance recoverable on unpaid claims | | |
| Excess specific and aggregate | 18,779,684 | 22,817,334 |
| Excess IBNR | <u>24,490,583</u> | <u>26,205,110</u> |
| Reinsurance recoverable on unpaid claims | <u>43,270,267</u> | <u>49,022,444</u> |
| Total liabilities for unpaid claims and claim adjustment expenses net of excess reinsurance recoverable | <u><u>\$ 228,836,478</u></u> | <u><u>\$ 278,310,556</u></u> |

The following supplementary information is about the average historical claims' duration as of December 31, 2022:

| Average annual percentage payout of incurred claims by age, net of reinsurance | | | | | | | | | | |
|---|-------|-------|-------|------|------|------|------|------|------|------|
| Average Annual percentage payout of incurred claims by age, net of reinsurance | | | | | | | | | | |
| Years | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| | 18.9% | 20.5% | 12.0% | 7.3% | 5.1% | 2.9% | 3.4% | 1.9% | 2.4% | 1.4% |

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>2022</u> | <u>2021</u> |
|---|----------------|----------------|
| Carrying amount of the liabilities for unpaid claims and claim adjustment expenses presented at fair value | \$ 228,836,478 | \$ 278,310,556 |
| Aggregate amount of discount on loss reserves | 45,877,180 | 32,880,497 |
| Aggregate amount of discount on excess reinsurance recoverable | (8,284,920) | (4,830,661) |
| Range of interest rates used to discount | 1.5-2.5% | 1.5-2% |