



KANSAS EASTERN REGION INSURANCE TRUST

COMPREHENSIVE  
ANNUAL FINANCIAL REPORT

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FOR THE YEARS ENDED  
DECEMBER 31, 2018  
AND DECEMBER 31, 2017

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600 BROADWAY • SUITE 200 • KANSAS CITY, MISSOURI • 64105





# KANSAS EASTERN REGION INSURANCE TRUST

*Preventing Loss & Promoting Safety  
For Cities and Counties in Eastern Kansas*

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017

### Chair and Officers of Kansas Eastern Region Insurance Trust

Nic Sanders	Chair
David Grant	1 <sup>st</sup> Vice-Chair
Alan Abramovitz	2 <sup>nd</sup> Vice-Chair

### Prepared by:

Mid-America Regional Council  
Department of Finance & Administration  
Joanne Bussinger, Accountant III

### Office Address:

600 Broadway, Suite 200  
Kansas City, Missouri 64105-1659

# Kansas Eastern Region Insurance Trust

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## **INTRODUCTORY SECTION**



# KANSAS EASTERN REGION INSURANCE TRUST

*Preventing Loss & Promoting Safety*

May 8, 2019

The Board of Trustees and Members  
Kansas Eastern Region Insurance Trust:

We are pleased to submit the comprehensive annual financial report of Kansas Eastern Region Insurance Trust (KERIT) for the fiscal years ended December 31, 2018 and 2017. The 2018 Comprehensive Annual Financial Report reflects the 32<sup>nd</sup> year of operations of KERIT. The report is submitted to the Board of Trustees in compliance with Article VI, Section 7 of the Bylaws.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with KERIT. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position, results of operations and cash flows of KERIT. All disclosures necessary to enable the reader to gain an understanding of KERIT's financial activities have been included.

The KERIT Board of Trustees is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of KERIT are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The financial statements have been subjected to an independent audit by the accounting firm of BKD, LLP. The auditors have issued an unmodified ("clean") opinion of KERIT's financial statements for the year ended December 31, 2018. The report of independent auditors on the basic financial statements is located at the front of the financial section of this report.

In addition, Pinnacle Actuarial Resources, Inc. provided actuary services to determine the level of claim reserves for KERIT as of December 31, 2018. Such reserves include amounts for the incurred but not reported losses and loss development for all claims. These estimates were provided for each claim year.

Readers are encouraged to review management's discussion and analysis (MD&A) beginning on page 16, which provides a narrative introduction, overview and financial analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

### THE REPORTING ENTITY AND ITS SERVICES

Kansas Eastern Region Insurance Trust (KERIT) was formed on November 1, 1986 as a self-insurance program to cover workers' compensation claims for its members. Members of KERIT, located primarily in eastern Kansas, include cities and counties. KERIT is a not-for-profit corporation and was formed as a group-funded workers' compensation pool under Section 44-581 et. seq. of the Kansas Statutes Annotated. Effective November 1, 1993, KERIT began operating under Section 12-2616 et. seq. of the Kansas Statutes Annotated, which governs municipal group-funded pools. Special state legislation was passed in April 1993 to allow KERIT to transfer from Section 44-581 et. seq. to Section 12-2616 et. seq. regulation without having to dissolve the corporation and form a new one.

KERIT's general objectives are to provide a self-insured program for local governments; to improve the loss prevention program to reduce claims and accidents; to reduce costs through sound and equitable claim management practices; and to provide excess insurance at a discount based on volume and lower risk exposure.

By creating KERIT, the members have more control and direction of the loss control program and claims management. The members feel strongly that a high-quality loss control program is essential to controlling losses and have developed a program specifically tailored to their needs. Focusing attention on claims management and settlement provides members greater control on the expenditure of their contribution dollars.

Not only is KERIT concerned about the expenditure of its contribution dollars, but it is also concerned with the indirect costs of workers' compensation claims. These indirect costs include vacant job positions, possible overtime pay, increased administrative costs, etc. Strong emphasis is placed in the loss control program on preventing accidents.

#### Membership

The membership of KERIT includes fifteen cities, two counties and one park and recreation district. When KERIT first began providing workers' compensation coverage on November 1, 1986, there were six cities and one county.

Cities, counties and other entities joining KERIT must remain members a minimum of three years. The Board of Trustees may grant approval to cities and counties applying for membership in KERIT under such terms and conditions as the Board may, from time to time, determine.

Trust underwriting and rate-setting policies have been established after consultation with the service agent, Thomas McGee, L.C., and in accordance with state workers' compensation laws and the Kansas Insurance Department regulations. KERIT members are subject to additional

contribution assessments in the event of deficiencies and may receive a refund of contributions for those claim years when revenues exceed expenses. The Board of Trustees must specifically authorize a refund of contributions.

### Loss Control Program

The success of any self-funded insurance trust depends largely on the commitment made by its members to minimize their losses and have a robust safety program. To assist members in fulfilling this goal, KERIT has developed a loss control incentive program called the PLUS (Preventing Loss Utilizing Safety) Program to provide guidance and assistance in the design, implementation and measurement of loss control efforts made by each member. Major emphasis is given to upper and middle management's commitment to the PLUS Program. All KERIT members sitting on the Board are required to attend an orientation outlining the components of the PLUS program which encourage safety activities and promotion of safety awareness.

Essential components of the PLUS Program include wellness programs, claims reporting, return-to-work programs, training opportunities, facility safety surveys, seasonal employment safety training, safety committees, near miss reporting, a resource library and assistance with planning and goal-setting for each individual member. Since the key to long-term safety success relates directly to improved safety behaviors, the PLUS Program promotes safe behavior in both field activities and facility activities. Roundtables are held within specialized disciplines, such as fire and police, allowing opportunities for member representatives to share and problem solve safety issues common to their operations.

### Service Providers

KERIT contracts with service providers to provide claims administration, underwriting, loss control and accounting services. Thomas McGee, L.C. provides a coordinated underwriting, loss control, marketing and claims program. Beginning in 2019, Thomas McGee, L.C. serves as pool administrator to provide support services (i.e. meeting agendas, minutes, membership list, etc.). The Mid-America Regional Council provides accounting services.

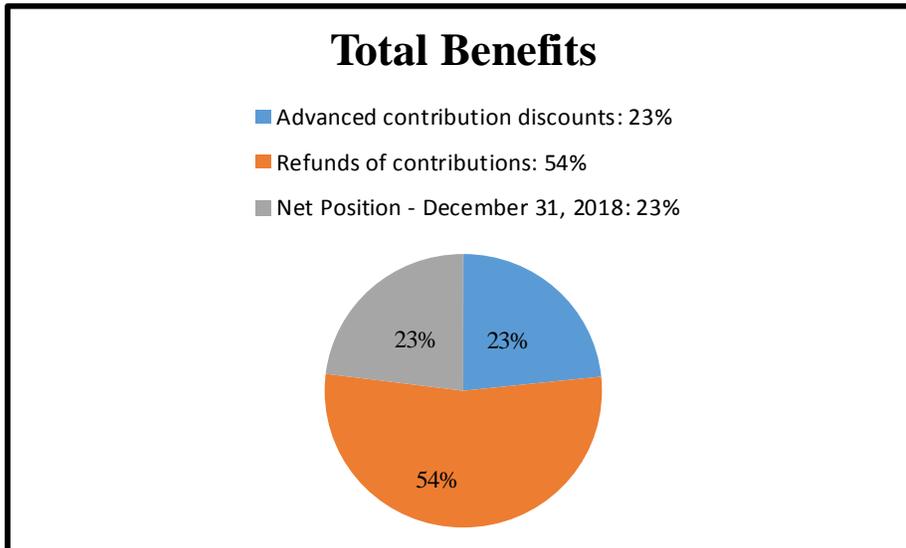
## ECONOMIC CONDITION AND OUTLOOK

KERIT operates in the eastern portion of the state of Kansas, expanding west from the state line approximately 225 miles. Growth of KERIT is very controlled, with each applicant under consideration closely reviewed for past loss history and current loss control practices.

While KERIT must calculate contributions according to state workers' compensation laws and the Kansas Insurance Department regulations, KERIT has the flexibility to grant contribution discounts and to assess additional contributions when necessary. In addition, KERIT is able to provide loss control services that greatly exceed that provided by traditional carriers and tailor the services to the needs of KERIT and its members. The members are better able to control and respond to changes in the environment in which they operate by pooling workers' compensation coverage.

KERIT has completed its thirty-second year of pooling workers' compensation coverage. Over that time, the members have accumulated nearly \$28 million in benefits as shown on the following table.

Calculated contributions (net of excess insurance premiums)	\$ 78,236,292
Supplemental contribution assessments	1,141,844
Investment income	<u>6,347,707</u>
<b>Total revenues</b>	<b><u>85,725,843</u></b>
Net incurred losses	44,971,968
Administrative expenses	9,601,022
Insurance taxes	<u>3,322,683</u>
<b>Total expenses</b>	<b><u>57,895,673</u></b>
<b>Net</b>	<b><u>\$ 27,830,170</u></b>
Advanced contribution discounts	\$ 6,500,882
Refunds of contributions	14,920,094
Net Position - December 31, 2018	<u>6,409,193</u>
<b>Total benefits</b>	<b><u>\$ 27,830,169</u></b>



The calculated contributions of the members since inception have been reduced by the advance contribution discounts totaling \$6,500,882. The members were able to retain these funds and use them for other governmental services. In addition, the members have received refunds of contributions totaling \$14,920,094 for older claim years that are closed or have few open claims.

The balance of the benefits from pooling, \$6,409,193, remains in net position of KERIT and will be available as refunds of contributions in the future when additional claim years are closed or near closed and the Board of Trustees declares a refund of contributions for those claim years. These remaining funds are invested to garner the maximum benefit for the members. The progressive growth of net position over the last thirty-two years reflects the economic stability and strength of KERIT and its ability to react to the environment in which it operates.

RELEVANT FINANCIAL POLICIES

The KERIT Board of Trustees evaluates its financial capacity to pay claims on a short-term and long-term basis when it sets contribution rates and approves the budget for the following claim year. The Trustees always budget a surplus of revenues over expenses for the upcoming claim year. Because the net position balance is currently more than adequate, for the 2019 claim year the Trustees were able to keep the members’ contributions as low as possible to cover projected expenses with a projected surplus of \$110,093.

In addition, the Trustees approved a policy in November 2014 which provides guidance on the minimum net position KERIT should maintain to ensure sufficient liquidity to meet KERIT’s obligations in the event of any unforeseen, significant, adverse developments in losses. This policy also designates a maximum net position. When the maximum is reached or exceeded then the Board should consider distributions of contributions (or dividends). This policy is evaluated for compliance at least two times each year, when considering potential dividend distributions and at claim year renewal.

As of December 31, 2018, the adjusted fund balance (calculated below) is just below the maximum target. Dividend distributions will be considered in the coming months that could impact the adjusted fund balance.

Net Position - December 31, 2018	\$	6,409,193
Unallocated/Accrued Premium Assessments		(213,534)
Fund Balance for Current Claim Year		-
Fund Balance for Immediate Prior Claim Year		<u>(790,678)</u>
Adjusted Fund Balance	\$	<u><u>5,404,981</u></u>

Adjusted Fund Balance	Minimum Fund Balance	Maximum Fund Balance
\$ 5,404,981	\$ 4,400,000	\$ 5,429,319

## MAJOR INITIATIVES

KERIT's vision statement is:

KERIT is a premier member-driven organization that is fiscally sound and known for best practices in worker's compensation. Its members are knowledgeable, fully engaged and accountable.

In response to the trustees' strategic planning session and survey in early 2018, the following goals were established for the Trust:

- Defining the role and recruiting a pool administrator
- Clarifying and entering into a long-term contract with MARC
- Determining a long-term growth strategy for KERIT

During 2018, the KERIT Executive Committee and other members formed a committee that evaluated the role of a Pool Administrator that considered the hiring of an Executive Director for the trust. The results of this evaluation that included interviewing various other organizations was to expand the scope of services provided by Thomas McGee to include the Pool Administrator responsibilities beginning 2019.

Meetings were also held with MARC's Executive Director and resulted in a long term agreement that modified MARC's scope of service to provide financial / accounting support for the Trust.

After an evaluation of the growth strategy, the trustees determined that the existing marketing services with CBIZ was no longer needed and terminated the agreement. The trustees will continue to evaluate the make-up of the KERIT membership and will call upon Thomas McGee and current members should it wish to grow.

During the first quarter of 2019, planning meetings were held based on the outcomes of the 2018 retreat. During these meeting an emphasis was made that any change must continue to keep members engaged in the key decisions of the Trust.

The changes discussed included increasing the committee activities. Similar to city council structures, by increasing the use of committee activities, Trustee will have an active involvement. The number of committee meeting may increase, but these meetings can be completed by telephone or webinar thus reducing travel time. Areas that are being explored are moving claim settlements authority to either a new claim committee or within the loss control committee; move rate making including PLUS, advance discounts and dividend calculations to the Finance Committee; and requiring each Trustee to become part of at least one committee. This involvement keeps members engaged in KERIT and helps develop each member for future leadership roles.

With the use of active committees, the full KERIT board may reduce the number of meetings from bimonthly to quarterly meetings. This change would require a review of items that require full board discussion and approval.

## Loss Control Efforts

The KERIT Loss Control Committee continues to annually review the PLUS (Preventing Loss Utilizing Safety) Program. The KERIT Trustees promote the PLUS Program to measure the efficiency and effectiveness of an organization's safety program and to assist members in ensuring that critical areas related to safety get the attention they deserve. The PLUS Program is a tool which will serve as a guide, allowing members to monitor performance in each component of the loss control program on an ongoing basis. The PLUS Program supports the idea that what gets measured gets done.

KERIT is proud to announce all eligible PLUS Program KERIT entities earned at least eight out of ten possible PLUS Program points for the 2018 program year, resulting in a discount of 4 to 5 percent for the 2019 contributions. Also in 2018, the Trustees continued a program to pay the fees for all members for MSDSonline. This internet-based service provides users with information on hazardous materials and can simplify the work to comply with material safety data sheets (MSDS) legal requirements.

In 2018, the Trustees continued the annual appreciation award program which provides \$650 for each member. These funds are available to enhance their loss control efforts by providing funds for equipment, supplies, training, incentives, etc. as each member deems appropriate.

The 2019 PLUS Program includes various components which each member will work to satisfy during the year. The components for 2019 are:

1. Timely Reporting of Claims/Claims Management
2. Post Offer Physical Assessment
3. Development of Task Specific Standard Operating Procedures and Job Hazard Analysis
4. Physical Fitness/Assessment for Public Safety Personnel
5. Facility Inspections
6. Safety Committee
7. Accident Investigation
8. Safety Training/Orientation
9. Other

## For the Future

KERIT's groundwork is set for the future. Measured performance, sustained retention and responsible growth in the future will allow KERIT to be a financially solid organization delivering high-quality service to its members and providing workers' compensation insurance effectively and efficiently. The Trustees will continue to look for opportunities to control and reduce costs and improve the benefits of membership in KERIT.

## GFOA Financial Reporting Program

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to KERIT for its comprehensive annual financial report for the fiscal year ended December 31, 2017. This was the twenty-seventh consecutive year that KERIT has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, KERIT published an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## Acknowledgments

The preparation of this report could not have been accomplished without the cooperation and dedicated services of Mid-America Regional Council (MARC), Thomas McGee, L.C. and BKD, LLP. We would like to express sincere appreciation to all those who assisted and contributed to its preparation, especially Joanne Bussinger of MARC and Ed Reasoner of Thomas McGee, L.C.

Appreciation is also extended to the KERIT officers and Board of Trustees for their interest and support in planning and conducting the financial operations of KERIT in a responsible and progressive manner.

Respectfully submitted,



Nic Sanders  
Chair



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Kansas Eastern Region  
Insurance Trust, Missouri**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2017**

*Christopher P. Morill*

Executive Director/CEO

**Kansas Eastern Region Insurance Trust  
Organizational Structure  
December 31, 2018**

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**Chair and Officers of Kansas Eastern Region Insurance Trust (KERIT)**

Nic Sanders	Chair
David Grant	1 <sup>st</sup> Vice-Chair
Alan Abramovitz	2 <sup>nd</sup> Vice-Chair

**Members of KERIT**

<b>Cities</b>		<b>Counties</b>
Chanute	Leawood	Atchison County
Coffeyville	McPherson	Leavenworth County*
Derby	Merriam*	<b>Other</b>
Fairway	Mission	Johnson Co Park & Recreation District
Gardner*	Ottawa	
Junction City	Shawnee*	
Lansing*	Winfield	
Leavenworth		

\*Charter members

**Principal Offices**

600 Broadway, Suite 200  
Kansas City, Missouri 64105  
(816) 474-4240

**Financial Management**

Mid-America Regional Council  
600 Broadway, Suite 200  
Kansas City, Missouri 64105  
(816) 474-4240

**Pool Administration, Underwriting, Claims  
Management and Loss Control/Prevention**

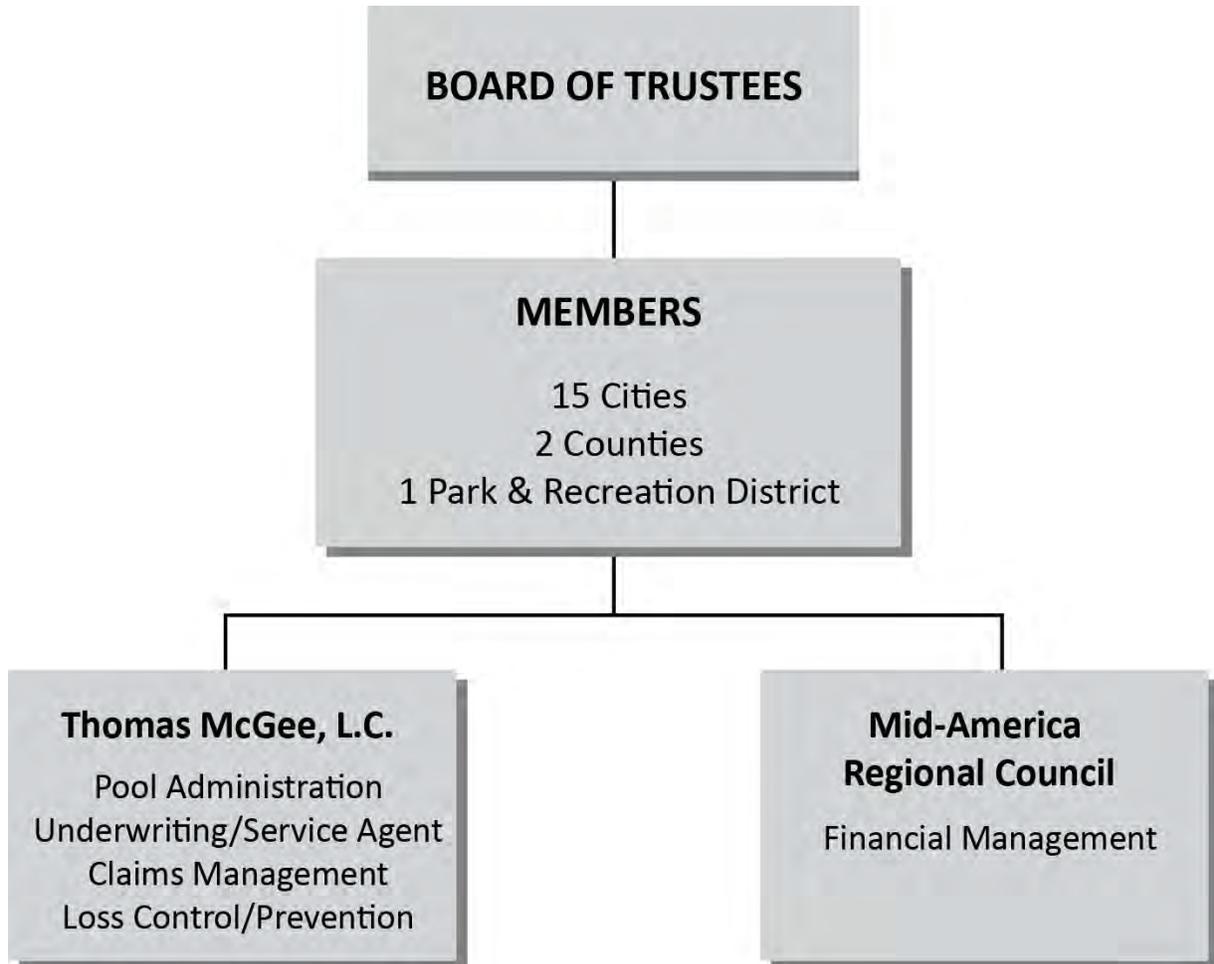
Thomas McGee, L.C.  
120 West Street, Suite 1000  
Kansas City, Missouri 64105  
(816) 842-4800

**Independent Certified Public Accountants**

BKD, LLP  
1201 Walnut Street, Suite 1700  
Kansas City, Missouri 64106  
(816) 221-6300

**Kansas Eastern Region Insurance Trust**  
**Organizational Chart**  
**December 31, 2018**

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**Kansas Eastern Region Insurance Trust**  
**Board of Trustees**  
**December 31, 2018**

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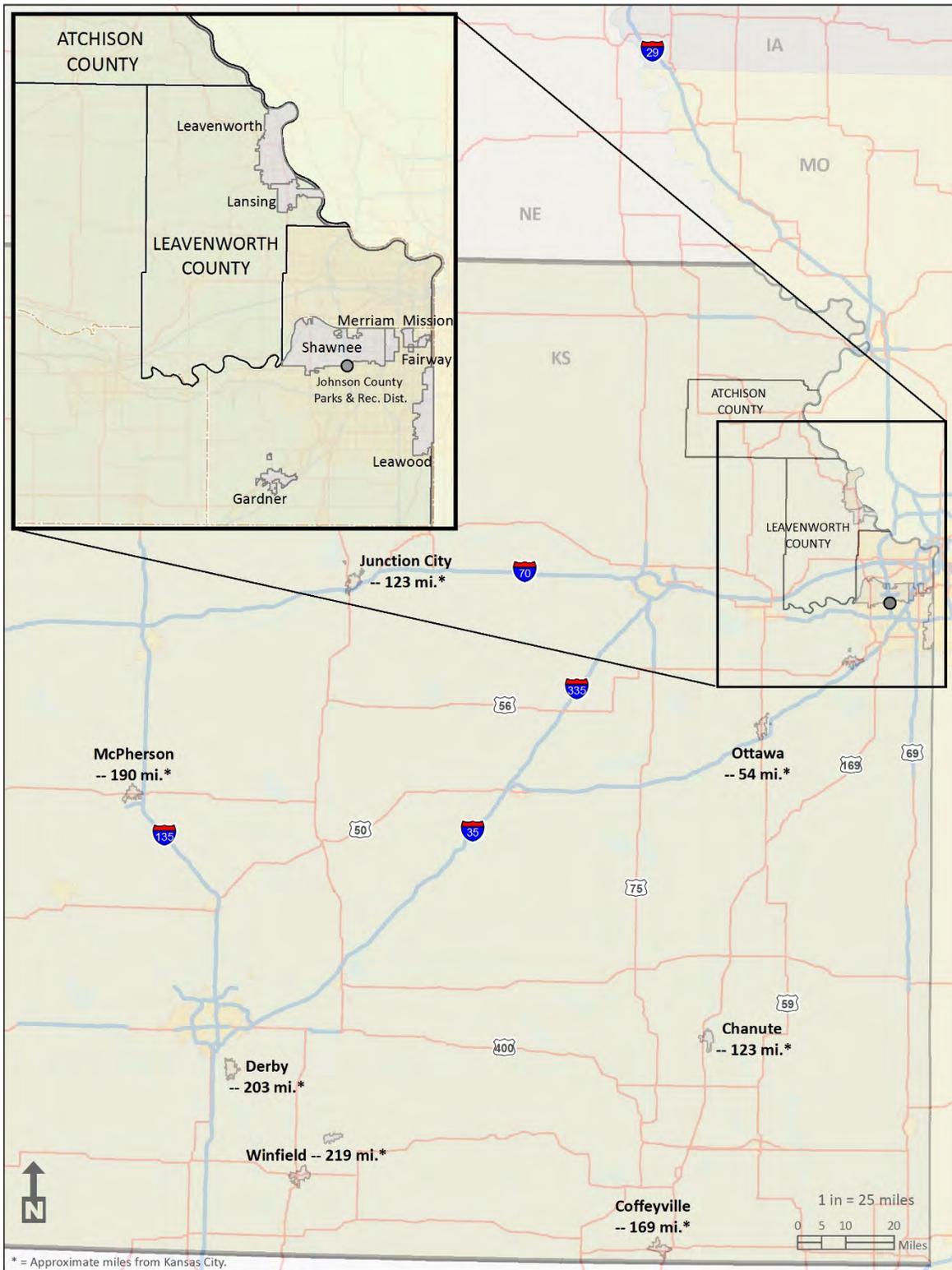
**MEMBER**

Atchison County  
Chanute  
Coffeyville  
Derby  
Fairway  
Gardner  
Johnson Co Park & Recreation Dist.  
Junction City  
Lansing  
Leavenworth  
Leavenworth County  
Leawood  
McPherson  
Merriam  
Mission  
Ottawa  
Shawnee  
Winfield

**TRUSTEE / ALTERNATE TRUSTEE**

Jamie Madison / Michelle Phillips  
Jeff Cantrell / Kevin Jones  
Marilyn Evenson / Vacant  
Jenny Turner / Stacey Cook  
Nathan Nogelmeier / Kim Young  
Alan Abramovitz / Shannon Templeton  
David Grant / Noelle Testa  
Lindsay Miller / Tammy Melton  
Sarah Bodensteiner / Tim Vandall  
Lona Lanter / Michelle Meinert  
Fran Keppler / Mark Loughry  
Nic Sanders / Cathy McDonald  
Tammy Seely / Carla Pearson  
Sari Maple / Meredith Hauck  
Laura Smith / Vacant  
Michelle Stegman / Lacy Feuerborn  
Liz Barnard / Debbie Kelly  
James Chism / Will Crow

**Kansas Eastern Region Insurance Trust**  
**Map of Area Served by KERIT**  
**December 31, 2018**







## **FINANCIAL SECTION**

## Independent Auditor's Report

Board of Trustees  
Kansas Eastern Region Insurance Trust  
Kansas City, Missouri

We have audited the accompanying financial statements of Kansas Eastern Region Insurance Trust (KERIT), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise KERIT's basic financial statement as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kansas Eastern Region Insurance Trust as of December 31, 2018 and 2017, and the change in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and loss development schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise KERIT's basic financial statements. The introductory section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

Kansas City, Missouri  
May 8, 2019

# KERIT

## Management's Discussion and Analysis

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This section of the annual financial report of KERIT presents a discussion and analysis of the financial performance for the years ended December 31, 2018 and December 31, 2017, with select comparative information for the year ended December 31, 2016. Please read it in conjunction with the basic financial statements, which follow this section. The financial section of this report also contains other supplementary information in addition to the basic financial statements.

### Overview of the Financial Statements

KERIT's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental entities and insurance enterprises where applicable. The primary purpose of KERIT is to cover workers' compensation claims for its governmental members. KERIT operates in a manner similar to an insurance company and uses a proprietary fund, more specifically an enterprise fund, to account for its activities.

**Financial Statements.** The basic financial statements are presented on the accrual basis of accounting. The three basic financial statements presented within the financial statements are as follows:

**Statement of Net Position** – This statement presents information reflecting KERIT's assets, liabilities and net position. Net position represents the amount of total assets less total liabilities. The statement of net position is categorized as to current and long-term assets and liabilities. For purposes of the basic financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within twelve months of the statement date.

**Statement of Revenues, Expenses and Changes in Net Position** – This statement reflects KERIT's operating revenues and expenses, as well as non-operating revenues and expenses, during the fiscal year. The major source of operating revenues is contribution income, with the major type of expense being workers' compensation claims. The change in net position for an enterprise fund is similar to net profit or loss for an insurance company.

**Statement of Cash Flows** – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

**Notes to basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**Other information.** In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning loss development.

The statistical section includes a variety of schedules reporting financial activity by claim year and fiscal year, selected loss information and member demographic information.

# KERIT

## Management's Discussion and Analysis

### Financial Highlights

**Basic Financial Statements.** The following table summarizes the financial position for KERIT as of December 31, 2018, 2017 and 2016.

	December 31, 2018	December 31, 2017	Increase (Decrease) from December 31, 2017	Percent Increase (Decrease) from December 31, 2017	December 31, 2016	Increase (Decrease) from December 31, 2016	Percent Increase (Decrease) from December 31, 2016
Cash and investments	\$ 10,455,319	\$ 9,858,731	\$ 596,588	6 %	\$ 9,717,937	\$ 140,794	1 %
Excess insurance recoverable on paid claims	7,803	152	7,651	5,034	20,915	(20,763)	(99)
Other receivables	191,571	91,101	100,470	110	156,121	(65,020)	(42)
Total current assets	10,654,693	9,949,984	704,709	7	9,894,973	55,011	1
Unbilled supplemental assessments	213,534	149,156	64,378	43	352,522	(203,366)	(58)
Total assets	\$ 10,868,227	\$ 10,099,140	\$ 769,087	8	\$ 10,247,495	\$ (148,355)	(1)
Claim reserves-current portion	\$ 832,000	\$ 1,063,000	\$ (231,000)	(22)	\$ 1,106,000	\$ (43,000)	(4)
Other current liabilities	202,953	168,963	33,990	20	187,685	(18,722)	(10)
Unearned contributions	601,578	249,177	352,401	141	576,914	(327,737)	(57)
Total current liabilities	1,636,531	1,481,140	155,391	10	1,870,599	(389,459)	(21)
Accrued tax liability- non-current portion	147,676	143,936	3,740	3	149,758	(5,822)	(4)
Excess assessment liability	32,572	31,959	613	2	31,848	111	0
Claim reserves-non-current portion	2,642,255	2,347,662	294,593	13	2,524,912	(177,250)	(7)
Total long-term liabilities	2,822,503	2,523,557	298,946	12	2,706,518	(182,961)	(7)
Total liabilities	4,459,034	4,004,697	454,337	11	4,577,117	(572,420)	(13)
Net Position:							
Restricted	790,678	1,099,002	(308,324)	(28)	474,275	624,727	132
Unrestricted	5,618,515	4,995,441	623,074	12	5,196,103	(200,662)	(4)
Total net position	6,409,193	6,094,443	314,750	5	5,670,378	424,065	7
Total liabilities and net position	\$ 10,868,227	\$ 10,099,140	\$ 769,087	8	\$ 10,247,495	\$ (148,355)	(1)

Cash and investments increased \$184,159 and \$412,429, respectively from fiscal year 2017 to fiscal year 2018 for a net increase of \$596,588. Cash decreased \$1,388,858 and investments increased \$1,529,652 from fiscal year 2016 to fiscal year 2017 for a net increase of \$140,794.

## KERIT Management's Discussion and Analysis

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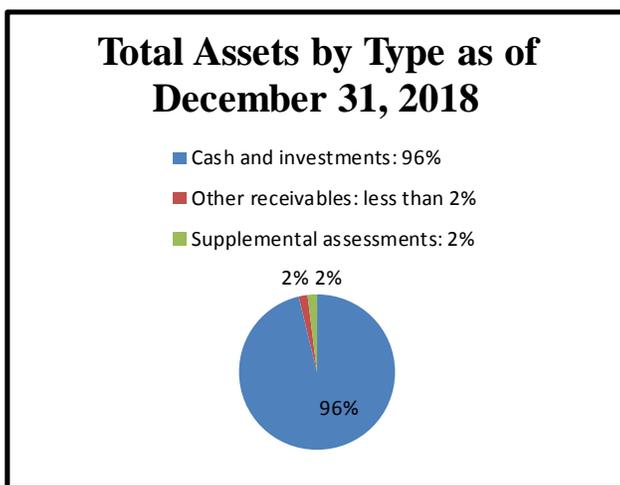
Unbilled supplemental assessments represent those amounts due from members for claim years that have expenses that exceed revenues. The unbilled supplemental assessments as of December 31, 2018, 2017 and 2016 are shown below:

	December 31, 2018	December 31, 2017	Increase (Decrease) from December 31, 2017	Percent Incr. (decr.) from December 31, 2017	December 31, 2016	Increase (Decrease) from December 31, 2016	Percent Incr. (decr.) from December 31, 2016
1996 claim year	\$ 2,184	\$ 2,184	\$ -	- %	\$ 2,184	\$ -	- %
2010 claim year	91,583	135,760	(44,177)	(33)	184,598	(48,838)	(26)
2015 claim year	2,195	11,212	(9,017)	(80)	165,740	(154,528)	(93)
2018 claim year	117,572	-	117,572	-	-	-	-
	<u>\$ 213,534</u>	<u>\$ 149,156</u>	<u>\$ 64,378</u>	43	<u>\$ 352,522</u>	<u>\$ (203,366)</u>	(58)

In fiscal year 2017, the accrual for unbilled supplemental assessment for claim years 2010 and 2015 decreased by \$48,838 and \$154,528, respectively.

In fiscal year 2018, the accrual for unbilled supplemental assessment for claim years 2010 and 2015 decreased by \$44,177 and \$9,017, respectively; and claim year 2018 increased by \$117,572. These claim year assessments will change either positively or negatively as claims develop in future years and will also be reduced by future investment income allocated to the claim years.

Total assets increased \$769,087 from \$10,099,140 as of December 31, 2017 to \$10,868,227 as of December 31, 2018.



Total assets decreased \$148,355 from \$10,247,495 as of December 31, 2016 to \$10,099,140 as of December 31, 2017.

## KERIT

### Management's Discussion and Analysis

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The combined current and non-current portions of claim reserves increased \$63,593 in fiscal year 2018 and decreased \$220,250 in fiscal year 2017 due to timing of claim payments and favorable/unfavorable loss development. Note 1B discusses the significant accounting policies regarding management's estimates for claim reserves. Note 3 provides a reconciliation of claims reserves from the beginning of the fiscal year to the end of the fiscal year.

Unearned contributions increased by \$352,401 as of December 31, 2018 and decreased by \$327,737 as of December 31, 2017. The factors that contribute to this are the amounts members pay during the current fiscal year for the following year's premiums and the amount that premiums were reduced and owed to the members as a result of the annual year-end payroll audit.

	December 31, 2018	December 31, 2017	Increase (Decrease) from December 31, 2017	Percent Incr. (decr.) from December 31, 2017	December 31, 2016	Increase (Decrease) from December 31, 2016	Percent Incr. (decr.) from December 31, 2016
Advanced premiums paid	\$ 362,832	\$ 94,391	\$ 268,441	284 %	\$ 416,074	\$ (321,683)	(77) %
Payroll audit refund	238,746	154,786	83,960	54	160,840	(6,054)	(4)
	<u>\$ 601,578</u>	<u>\$ 249,177</u>	<u>\$ 352,401</u>	141	<u>\$ 576,914</u>	<u>\$ (327,737)</u>	(57)

Other current liabilities increased by \$33,990 as of December 31, 2018, primarily due to an increase in accounts payable. The total for current liabilities decreased by \$18,722 as of December 31, 2017, primarily due to decreases in accounts payable, reserves for unallocated loss adjustment and current accrued tax liability.

In fiscal year 2018, KERIT's net position increased by \$314,750 compared to fiscal year 2017, when net position increased by \$424,065. The increases in 2018 and 2017 were influenced mostly by the changes in premiums, claims reserves and refunds of contributions shown below. Refunds of contributions (dividends) reward the members for controlling losses (workers' compensation claims) in prior years and reduce net position when the refunds are approved by the Board of Trustees.

	December 31, 2018	December 31, 2017	Increase (Decrease) from December 31, 2017	Percent Incr. (decr.) from December 31, 2017	December 31, 2016	Increase (Decrease) from December 31, 2016	Percent Incr. (decr.) from December 31, 2016
Increase (decrease) in net position	\$ 314,750	\$ 424,065	\$ (109,315)	(26) %	\$ (176,065)	\$ 600,130	(341) %
Incurred losses and recoveries	1,733,109	1,337,266	395,843	30	2,064,207	(726,941)	(35)
Insurance taxes paid	81,325	54,414	26,911	49	79,747	(25,333)	(32)
Refunds of contributions	277,317	357,756	(80,439)	(22)	650,119	(292,363)	(45)

## KERIT Management's Discussion and Analysis

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The following table summarizes KERIT's revenues and expenses for the years ended December 31, 2018, 2017 and 2016.

	Fiscal Year 2018	Fiscal Year 2017	Increase (Decrease) From Fiscal Year 2017	Percent Increase (Decrease) From Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease) From Fiscal Year 2016	Percent Increase (Decrease) From Fiscal Year 2016
Operating revenues:							
Contributions earned (net of excess insurance premiums)	\$ 2,739,178	\$ 2,631,998	\$ 107,180	4 %	\$ 2,810,259	\$ (178,261)	(6) %
Supplemental contribution assessments	<u>97,728</u>	<u>(157,366)</u>	<u>255,094</u>	162	<u>167,190</u>	<u>(324,556)</u>	(194)
Total operating revenues	2,836,906	2,474,632	362,274	15	2,977,449	(502,817)	(17)
Non-operating revenues:							
Net investment income (loss)	<u>140,107</u>	<u>123,727</u>	<u>16,380</u>	13	<u>89,836</u>	<u>33,891</u>	38
Total revenues	<u>2,977,013</u>	<u>2,598,359</u>	<u>378,654</u>	15	<u>3,067,285</u>	<u>(468,926)</u>	(15)
Operating expenses:							
Incurred losses and recoveries	1,733,109	1,337,266	395,843	30	2,064,207	(726,941)	(35)
Administrative expenses	468,816	310,688	158,128	51	348,347	(37,659)	(11)
Loss control	101,696	114,170	(12,474)	(11)	100,930	13,240	13
Insurance taxes	81,325	54,414	26,911	49	79,747	(25,333)	(32)
Refunds of contributions	<u>277,317</u>	<u>357,756</u>	<u>(80,439)</u>	(22)	<u>650,119</u>	<u>(292,363)</u>	(45)
Total operating expenses	<u>2,662,263</u>	<u>2,174,294</u>	<u>487,969</u>	22	<u>3,243,350</u>	<u>(1,069,056)</u>	(33)
Increase (decrease) in net position	314,750	424,065	(109,315)	(26)	(176,065)	600,130	(341)
Net position, beginning of year	<u>6,094,443</u>	<u>5,670,378</u>	<u>424,065</u>	7	<u>5,846,443</u>	<u>(176,065)</u>	(3)
Net position, end of year	<u>\$ 6,409,193</u>	<u>\$ 6,094,443</u>	<u>\$ 314,750</u>	5	<u>\$ 5,670,378</u>	<u>\$ 424,065</u>	7

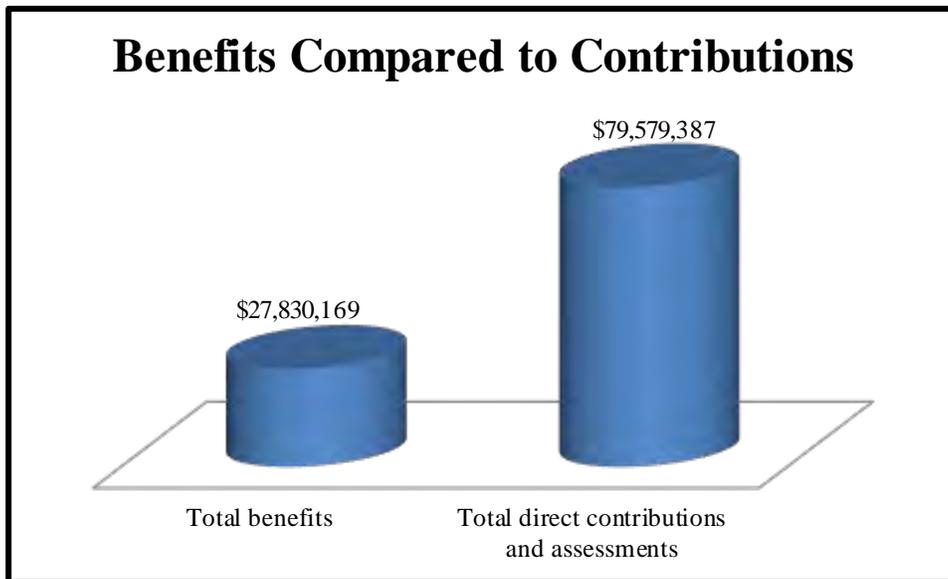
The success of KERIT can also be measured by the amount of contribution savings from advanced contribution discounts that KERIT is able to award its members at the beginning of each claim year. In addition, the net position represents future refunds of contributions to the members. The discounts and refunds of contributions are benefits that members seldom see in the traditional insurance market.

These benefits are compared to the total of contributions billed and collected by KERIT and any supplemental contribution assessments accrued to cover deficiencies in a claim year. Even though, as of December 31, 2018, KERIT has recorded supplemental contribution assessments of \$1,141,844 to cover deficiencies in nine claim years, the members have earned benefits of \$27,830,169 or 35 percent of their contribution investment.

**KERIT**  
**Management's Discussion and Analysis**

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	<b>Since Inception</b>
Cumulative refunds of contributions since inception	\$ 14,920,094
Net position- December 31, 2018	6,409,193
Advanced contribution discounts	<u>6,500,882</u>
 Total benefits	 <u>\$ 27,830,169</u>
 Direct contributions earned	 \$ 78,437,543
Supplemental contribution assessments	<u>1,141,844</u>
 Total direct contributions and assessments	 <u>\$ 79,579,387</u>
 Percent of benefits of total direct contributions and assessments	 35%



Contributions earned increased by \$107,180 from fiscal year 2017 to fiscal year 2018 and decreased by \$178,261 from fiscal year 2016 to fiscal year 2017. The calculation of contributions includes the members' actual payrolls, claim experience modifiers, and trust discounts (see comparison between fiscal years 2018, 2017 and 2016 on the following table). These factors vary from member to member and work independently of each other. As an example, a member's contribution may decrease even though its payroll increased because the experience modifier decreased more significantly than the increase in payroll. The net effect of the increases and decreases of these factors among all of the members resulted in the net changes in the contributions noted above.

## KERIT

### Management's Discussion and Analysis

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	Claim Year 2018	Claim Year 2017	Increase (Decrease) From Claim Year 2017	Percent Increase (Decrease) From Claim Year 2017	Claim Year 2016	Increase (Decrease) From Claim Year 2016	Percent Increase (Decrease) From Claim Year 2016
Member payrolls	<u>\$ 170,610,006</u>	<u>\$ 161,816,273</u>	<u>\$ 8,793,733</u>	5 %	<u>\$ 157,004,964</u>	<u>\$ 4,811,309</u>	3 %
Average member experience modifier	<u>95%</u>	<u>86%</u>	<u>9%</u>	10	<u>79%</u>	<u>7%</u>	9
Trust discounts:							
Contribution discount	\$ 427,571	\$ 413,928	\$ 13,643	3	\$ 443,022	\$ (29,094)	(7)
Experience modification discount	57,731	47,896	9,835	21	60,823	(12,927)	(21)
PLUS Program discount	155,178	150,918	4,260	3	160,999	(10,081)	(6)
Total trust discounts:	<u>\$ 640,480</u>	<u>\$ 612,742</u>	<u>\$ 27,738</u>	5	<u>\$ 664,844</u>	<u>\$ (52,102)</u>	(8)
Average loss cost rate	<u>1.82%</u>	<u>1.85%</u>	<u>-0.03%</u>	(2)	<u>2.02%</u>	<u>-0.17%</u>	(8)

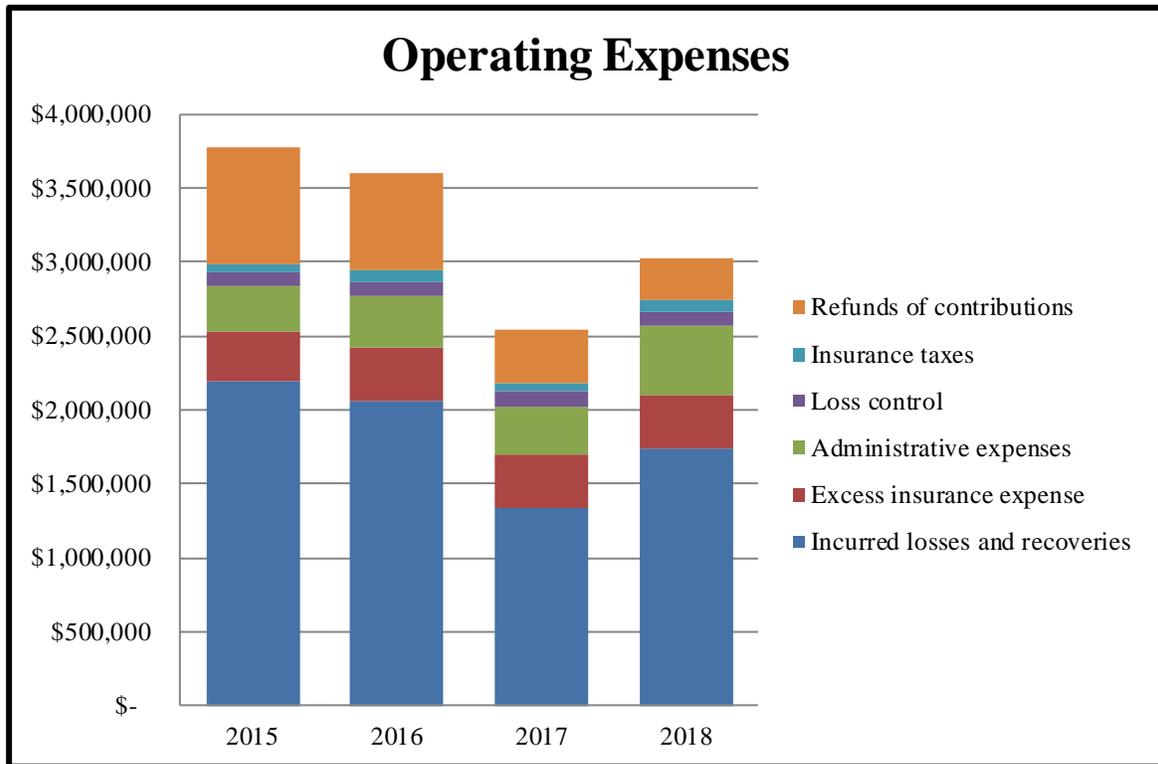
Trust members are subject to supplemental contribution assessments in the event of deficiency in a claim year. Several claim years have resulted in deficiencies. Each fiscal year, the amount of investment income earned and changes in the estimated total incurred losses and recoveries affect the cumulative surplus or deficiency in each of the claim years. Due to two unusually large losses in claim year 2010, an assessment was necessary to cover the total operating expenses. In fiscal year 2018, KERIT increased the accrued supplemental contribution assessments by \$97,728 compared to a decrease of \$157,366 in fiscal year 2017 and an increase of \$167,190 in fiscal year 2016.

There was an increase of \$16,380 in net investment income from fiscal year 2017 to fiscal year 2018 and \$33,891 from fiscal year 2016 to fiscal year 2017, due to a changing financial market and portfolio mix.

# KERIT

## Management's Discussion and Analysis

A comparison of operating expense by fiscal year is shown below:



Incurred losses and recoveries increased \$395,844 in fiscal year 2018 and decreased in \$726,941 in fiscal year 2017 as follows:

	Fiscal Year 2018	Fiscal Year 2017	Increase (Decrease) From Fiscal Year 2017	Percent Increase (Decrease) From Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease) From Fiscal Year 2016	Percent Increase (Decrease) From Fiscal Year 2016
Paid claims	\$ 1,807,829	\$ 1,582,027	\$ 225,802	14 %	\$ 1,766,871	\$ (184,844)	(10) %
Change in:							
Claims reserves	7,676	715,573	(707,897)	(99)	88,898	626,675	705
Incurred but not reported claims and loss development reserves	(38,583)	(39,999)	1,416	(4)	214,212	(254,211)	(119)
Excess insurance recoveries and other recoveries	<u>(43,812)</u>	<u>(920,335)</u>	<u>876,523</u>	95	<u>(5,774)</u>	<u>(914,561)</u>	(15,839)
Total incurred losses and recoveries	<u>\$ 1,733,110</u>	<u>\$ 1,337,266</u>	<u>\$ 395,844</u>	30	<u>\$ 2,064,207</u>	<u>\$ (726,941)</u>	(35)

Paid claims represent the actual payments for workers' compensation benefits during the fiscal year. Change in claim reserves represents the change between fiscal years in the estimated future payments on

## KERIT

### Management's Discussion and Analysis

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open known claims. Incurred but not reported claims and loss development reserves is an estimate provided annually by an actuary. Losses are reduced by recoveries and subrogations from third parties. Excess insurance recoveries represent the portion of claims over the specific excess insurance retention amounts that will be reimbursed to KERIT by the excess insurance carrier.

The above four components of total incurred losses and recoveries fluctuate with the number and type of claims filed, prior injuries and the ability to expedite settlement of the claims among other factors.

Each year, KERIT has an actuary estimate: 1) total incurred losses and recoveries, and 2) incurred but not reported claims and loss development reserves. The net re-estimated incurred losses and recoveries for open claim years are shown on the following table:

Claim Year Ended	Number of Claims	Number of Open Claims	Net Reestimated Incurred Losses and Recoveries		Increase/ (Decrease)
			December 31, 2018	December 31, 2017	
1996	752	1	\$ 1,259,258	\$ 1,259,258	\$ -
2001	447	1	1,789,207	1,789,207	-
2003	361	1	1,194,017	1,183,666	10,351
2004	362	3	1,388,409	1,383,909	4,500
2005	373	3	1,450,602	1,450,601	1
2006	384	4	1,279,704	1,279,704	-
2007	471	5	1,611,124	1,600,644	10,480
2008	492	7	1,669,299	1,665,316	3,983
2009	442	3	1,081,887	1,088,370	(6,483)
2010	447	6	2,197,330	2,205,794	(8,464)
2011	445	1	778,773	778,969	(196)
2012	438	1	633,310	627,646	5,664
2013	470	4	1,640,974	1,647,541	(6,567)
2014	411	3	1,598,295	1,599,707	(1,412)
2015	425	6	2,395,683	2,395,141	542
2016	482	5	1,474,870	1,669,028	(194,158)
2017	419	11	1,444,387	1,736,745	(292,358)
2018	496	123	2,207,226	-	2,207,226
		<u>188</u>	<u>\$ 27,094,355</u>	<u>\$ 25,361,246</u>	<u>\$ 1,733,109</u>

The initial loss estimate for claim year 2018 is \$2,207,227 as compared to the claim year 2017 original estimate of \$1,736,745.

**KERIT**  
**Management’s Discussion and Analysis**

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The number and loss estimates of claims over \$50,000 for claim years 2013 through 2018 changed as follows:

	<b>Fiscal Year 2018</b>	<b>Fiscal Year 2017</b>	<b>Increase/ (Decrease) From Fiscal Year 2017</b>	<b>Percent Increase/ (Decrease) From Fiscal Year 2017</b>
<b><u>Claim year 2013</u></b>				
Number of claims over \$50,000	<u>3</u>	<u>3</u>	<u>-</u>	<u>0</u>
Estimated losses for claims over \$50,000	<u>\$ 405,751</u>	<u>\$ 405,751</u>	<u>\$ -</u>	<u>0</u>
<b><u>Claim year 2014</u></b>				
Number of claims over \$50,000	<u>1</u>	<u>3</u>	<u>(2)</u>	<u>(67)</u>
Estimated losses for claims over \$50,000	<u>\$ 107,550</u>	<u>\$ 333,313</u>	<u>\$ (225,763)</u>	<u>(68)</u>
<b><u>Claim year 2015</u></b>				
Number of claims over \$50,000	<u>4</u>	<u>6</u>	<u>(2)</u>	<u>(33)</u>
Estimated losses for claims over \$50,000	<u>\$ 805,363</u>	<u>\$ 982,772</u>	<u>\$ (177,409)</u>	<u>(18)</u>
<b><u>Claim year 2016</u></b>				
Number of claims over \$50,000	<u>5</u>	<u>4</u>	<u>1</u>	<u>25</u>
Estimated losses for claims over \$50,000	<u>\$ 402,978</u>	<u>\$ 373,061</u>	<u>\$ 29,917</u>	<u>8</u>
<b><u>Claim year 2017</u></b>				
Number of claims over \$50,000	<u>4</u>	<u>8</u>	<u>(4)</u>	<u>(50)</u>
Estimated losses for claims over \$50,000	<u>\$ 513,934</u>	<u>\$ 702,459</u>	<u>\$ (188,525)</u>	<u>(27)</u>
<b><u>Claim year 2018</u></b>				
Number of claims over \$50,000	<u>6</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Estimated losses for claims over \$50,000	<u>\$ 582,790</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Additional information on the development of losses can be found in the Required Supplementary Information section.

Tax liability increased \$8,711 in 2018, compared to decreases of \$11,413 and \$741 in years 2017 and 2016, respectively. Each year the state of Kansas assesses four different taxes on KERIT. One tax is for the second injury fund and another tax is an assessment on paid losses; both taxes impose a liability for future tax payments based upon current claim reserves. In addition, the state assesses a contribution tax based upon the prior year’s contributions. Finally, there is a nominal annual workers’ compensation pools assessment fee. This fee was not assessed in 2018 and 2017.

## KERIT

### Management's Discussion and Analysis

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KERIT has been a part of the fee sweep small action lawsuit against the State of Kansas. The basis of the case stems from the State of Kansas' fee fund sweeps (including the state's workers' compensation fee fund) by the legislature in 2009 in order to balance the budget. The State has agreed to reimburse swept fees and attorney fees. In 2017, KERIT recorded an accounts receivable for \$9,084 for the 2010 claim year and anticipates receipt in 2019. Subsequent fees may be refunded for claim years 2011 and 2012 but are still under review.

Each year, when the tax payments are made, the tax rate is applied to net paid claims or contributions from the prior year, as applicable, and the rates may vary from one year to the next. The following table provides key information to show the changes in the accrued tax liability and the other taxes and fees paid during the year:

	FY 2018	FY 2017	FY 2016
Tax base	\$ 5,143,619	\$ 4,947,263	\$ 5,304,682
Estimated tax rate	<u>3.540%</u>	<u>3.540%</u>	<u>3.540%</u>
2nd injury fund and paid loss assessment fees	182,084	175,133	187,786
Contribution tax	<u>24,964</u>	<u>23,204</u>	<u>21,964</u>
Accrued tax liability	<u>\$ 207,048</u>	<u>\$ 198,337</u>	<u>\$ 209,750</u>
Change in accrued tax liability from prior year	\$ 8,711	\$ (11,413)	\$ (741)
Paid losses assessment fees	38,942	41,731	46,825
2nd injury fund assessments paid during the year	10,468	11,218	12,587
2nd injury fund assessment refund for 2010	-	(9,084)	-
Contribution tax	<u>23,204</u>	<u>21,962</u>	<u>21,076</u>
Total insurance taxes	<u>\$ 81,325</u>	<u>\$ 54,414</u>	<u>\$ 79,747</u>

#### Premium Assessments and Refund of Contributions

KERIT has been established as an assessable pool. Accounting records are maintained on a claim year basis. The Trustees have the authority to assess members for any deficiencies of revenues under expenses for any single claim year. Likewise, to the extent that revenues exceed expenses in a given claim year after all or nearly all related claims have been settled, and there are no other designations on this portion of net position, members participating in such claim years will be entitled to receive a refund of contributions should it be authorized by the Board of Trustees. Due to the maturity and financial position of KERIT, the Trustees have distributed refunds of contributions to members as shown on the following chart. It is these distributions that distinguish KERIT from the traditional insurance environment and reward the members for good loss experience and management of KERIT's activities.

**KERIT**  
**Management's Discussion and Analysis**

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KERIT has now distributed a total of \$14,920,094 for refunds of contributions as shown by fiscal year and by claim year on the following table:

<b>Fiscal year ended</b>	<b>Refunds of Contributions</b>	<b>Claim year ended</b>	<b>Refunds of Contributions</b>
1993	\$ 292,995	1987	\$ 295,463
1994	2,466	1988	129,897
1996	513,359	1990	499,335
1997	760,276	1991	287,638
1998	1,033,478	1992	699,157
1999	577,136	1993	1,355,137
2000	1,132,894	1994	339,345
2001	1,382,598	1995	130,952
2006	861,976	1996	2,009,219
2008	2,093,383	1997	1,735,008
2009	1,471,333	1998	410,265
2010	500,078	1999	631,827
2011	504,008	2002	384,602
2012	411,341	2003	639,913
2013	520,577	2004	849,171
2014	784,756	2005	1,070,820
2015	792,248	2006	827,899
2016	650,119	2007	632,291
2017	357,756	2008	268,072
2018	<u>277,317</u>	2009	464,115
		2011	405,928
Total	<u>\$ 14,920,094</u>	2012	590,455
		2013	197,718
		2014	49,612
		2016	<u>16,255</u>
		Total	<u>\$ 14,920,094</u>

## KERIT

### Management's Discussion and Analysis

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As of December 31, 2018, 2017 and 2016, KERIT had claim years with deficiencies because expenses exceeded revenues. The status of contribution assessments is shown below. The 2001 claim year experienced positive loss development and additional investment income. As a result, KERIT has collected \$32,572 more than the assessment needed to cover deficiencies. The excess is recorded as a supplemental assessment refund liability to the members.

	December 31, 2018	December 31, 2017	Increase/ (Decrease) From Fiscal Year 2017	Percent Increase/ (Decrease) From Fiscal Year 2017	December 31, 2016	Increase/ (Decrease) From Fiscal Year 2016	Percent Increase/ (Decrease) From Fiscal Year 2016
Collected:							
Claim year 1989 deficiency	\$ 108,330	\$ 108,330	\$ -	- %	\$ 108,330	\$ -	- %
Claim year 1990 deficiency	550	550	-	-	550	-	-
Claim year 1995 deficiency	157,687	157,687	-	-	157,687	-	-
Claim year 2000 deficiency	294,967	294,967	-	-	294,967	-	-
Claim year 2001 deficiency	135,460	135,460	-	-	135,460	-	-
Claim year 2010 deficiency	263,887	229,923	33,964	15	183,812	46,111	25
Accrued and Unbilled:							
Claim year 2001 refund liability	(32,572)	(31,959)	(613)	-	(31,848)	(111)	-
Claim year 1996 deficiency	2,184	2,184	-	-	2,184	-	-
Claim year 2010 deficiency	91,583	135,760	(44,177)	-	184,598	(48,838)	-
Claim year 2015 deficiency	2,195	11,212	(9,017)	(80)	165,740	(154,528)	(93)
Claim year 2018 deficiency	117,572	-	-	-	-	-	-
	<u>\$ 1,141,844</u>	<u>\$ 1,044,114</u>	<u>\$ (19,843)</u>	(2)	<u>\$ 1,201,480</u>	<u>\$ (157,366)</u>	(13)

### Requests for Information

This financial report is designed to provide a general overview of KERIT's finances for all those with an interest in KERIT. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mid-America Regional Council, 600 Broadway, Suite 200, Kansas City, Missouri 64105-1659.





## **BASIC FINANCIAL STATEMENTS**

**The basic financial statements are those financial statements which comprise the minimum presentation of KERIT's financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.**

**Kansas Eastern Region Insurance Trust**  
**Statements of Net Position**  
**December 31, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 987,630	\$ 803,471
Investments	8,677,011	7,956,258
Accrued interest	32,255	31,464
Contributions due from members	139,079	39,400
Accounts receivable	9,084	9,084
Prepaid insurance and other expenses	11,153	11,153
Reinsurance recoverable on paid claims	7,803	152
Total unrestricted current assets	<u>9,864,015</u>	<u>8,850,982</u>
Investments	<u>790,678</u>	<u>1,099,002</u>
Total restricted current assets	<u>790,678</u>	<u>1,099,002</u>
Total current assets	10,654,693	9,949,984
Long-term assets:		
Unbilled supplemental assessments	<u>213,534</u>	<u>149,156</u>
Total long-term assets	<u>213,534</u>	<u>149,156</u>
Total assets	<u>\$ 10,868,227</u>	<u>\$ 10,099,140</u>
<b>Liabilities and Net Position</b>		
Liabilities:		
Current liabilities:		
Claim reserves	\$ 832,000	\$ 1,063,000
Reserve for unallocated loss adjustment expenses	97,002	92,027
Accounts payable	46,579	22,535
Accrued tax liability	59,372	54,401
Unearned contributions	601,578	249,177
Total current liabilities	<u>1,636,531</u>	<u>1,481,140</u>
Long-term liabilities:		
Claim reserves, net of current portion	2,642,255	2,347,662
Supplemental assessment refund liability	32,572	31,959
Accrued tax liability	147,676	143,936
Total long-term liabilities	<u>2,822,503</u>	<u>2,523,557</u>
Total liabilities	<u>4,459,034</u>	<u>4,004,697</u>
Net Position:		
Restricted expendable		
Claim year 2017	790,678	454,103
Claim year 2016	-	644,899
Unrestricted	<u>5,618,515</u>	<u>4,995,441</u>
Total net position	<u>6,409,193</u>	<u>6,094,443</u>
Total liabilities and net position	<u>\$ 10,868,227</u>	<u>\$ 10,099,140</u>

**See Notes to Financial Statements**

**Kansas Eastern Region Insurance Trust**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended December 31, 2018 and 2017**

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	<b>2018</b>	<b>2017</b>
Operating revenues:		
Contributions earned (net of excess insurance expense)	\$ 2,739,178	\$ 2,631,998
Change in unbilled supplemental contribution assessments	<u>97,728</u>	<u>(157,366)</u>
Total operating revenues	<u>2,836,906</u>	<u>2,474,632</u>
Operating expenses:		
Losses and loss adjustment expenses:		
Paid	1,677,167	1,536,754
Change in reserves	55,942	(199,488)
Administrative expenses	468,816	310,688
Loss prevention	101,696	114,170
Insurance taxes	81,325	54,414
Refunds of contributions	<u>277,317</u>	<u>357,756</u>
Total operating expenses	<u>2,662,263</u>	<u>2,174,294</u>
Operating gain	<u>174,643</u>	<u>300,338</u>
Non-operating revenues:		
Interest income	210,560	176,750
Net decrease in fair value of investments	<u>(70,453)</u>	<u>(53,023)</u>
Total non-operating revenues	<u>140,107</u>	<u>123,727</u>
Increase in net position	314,750	424,065
Net position, beginning of year	<u>6,094,443</u>	<u>5,670,378</u>
Net position, end of year	<u>\$ 6,409,193</u>	<u>\$ 6,094,443</u>

**See Notes to Financial Statements**

**Kansas Eastern Region Insurance Trust**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Contributions collected	\$ 3,353,504	\$ 2,755,983
Losses and loss adjustment expenses paid	(1,764,343)	(1,571,346)
Recoveries collected, including excess insurance	87,174	34,593
Insurance premiums paid	(379,483)	(387,201)
Contribution taxes paid	(72,614)	(65,827)
Claims administration fees paid	(97,087)	(121,020)
Loss prevention paid	(106,009)	(114,245)
General and administrative expenses paid	(320,518)	(193,959)
Contribution assessments collected	33,964	46,111
Refunds of contributions paid	(277,317)	(357,756)
Net cash provided by operating activities	<u>457,271</u>	<u>25,333</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	1,631,532	2,253,973
Purchase of investments	(2,114,413)	(3,836,649)
Interest received	209,769	168,485
Net cash used in investing activities	<u>(273,112)</u>	<u>(1,414,191)</u>
Net change in cash and cash equivalents	184,159	(1,388,858)
Cash and cash equivalents, beginning of year	<u>803,471</u>	<u>2,192,329</u>
Cash and cash equivalents, end of year	<u>\$ 987,630</u>	<u>\$ 803,471</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating gain	<u>\$ 174,643</u>	<u>\$ 300,338</u>
Adjustments to reconcile operating income to net cash used in operating activities:		
(Increase) decrease in aggregate and specific excess insurance receivable	(7,651)	20,763
(Increase) decrease in prepaid expenses and other assets	-	(2,306)
(Increase) decrease in accounts receivables	-	(9,084)
(Increase) decrease in contributions due from members	(100,293)	84,676
(Increase) decrease in unbilled supplemental contribution assessments	(63,764)	203,366
Increase (decrease) in change in claim reserves	63,593	(220,250)
Increase (decrease) in reserve for unallocated loss adjustment expense	4,975	(5,388)
Increase (decrease) in accounts payable	24,044	(7,743)
Increase (decrease) in accrued tax liability	8,711	(11,413)
Increase (decrease) in unearned contributions	352,401	(327,737)
Increase (decrease) in excess assessment liability	612	111
Total adjustments	<u>282,628</u>	<u>(275,005)</u>
Net cash provided by operating activities	<u>\$ 457,271</u>	<u>\$ 25,333</u>
Supplemental schedule of noncash investing activities:		
Change in fair value of investments	<u>\$ (70,453)</u>	<u>\$ (53,023)</u>

**See Notes to Financial Statements**

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

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**1. Reporting Entity and Significant Accounting Policies**

**A. The Reporting Entity**

The Kansas Eastern Region Insurance Trust (KERIT) was formed on November 1, 1986 as a self-insurance program to cover workers' compensation claims for its members. Members of KERIT, located primarily in eastern Kansas, include fifteen cities, two counties and one park and recreation district. KERIT's general objectives are to provide a self-insured program for local governments; to improve the loss prevention program to reduce claims and accidents; to reduce costs through sound and equitable claim management practices; and to provide excess insurance at a discount based on volume and lower risk exposure.

Cities and other entities joining KERIT must remain members a minimum of three years; a member may withdraw from KERIT after that time by giving written notice at least ninety days prior to January 1. The Board of Trustees may grant approval to cities, counties and other entities applying for membership in KERIT under such terms and conditions as the Board may, from time to time, determine.

KERIT's underwriting and rate-setting policies have been established after consultation with the service agent, Thomas McGee, L.C., and in accordance with state workers' compensation laws and the Kansas Insurance Department regulations. KERIT members are subject to additional contribution assessments in the event of deficiencies and may receive a refund of contributions from those claim years when revenues exceed expenses. The Board of Trustees must specifically authorize refunds of contributions.

KERIT has contracted with Thomas McGee, L.C. to provide a coordinated underwriting, administration and marketing program, claims management and payment services and a loss control/prevention program. KERIT also contracts with Mid-America Regional Council for accounting services. KERIT has no employees.

KERIT's financial statements include the accounts of all KERIT functions and activities. The criteria used to determine whether component units (separate governmental units, agencies, or nonprofit corporations associated with KERIT) should be included in the financial statements of KERIT include appointment of a voting majority, imposition of will, imposition of financial benefit to or burden on KERIT and fiscal dependency. KERIT has determined that no other outside entity meets the above criteria.

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

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**B. Significant Accounting Policies**

The accounting policies of KERIT conform to accounting principles generally accepted in the United States of America as applicable to governmental and insurance enterprises. The following is a summary of the more significant policies:

**Basis of Presentation – Fund Accounting**

KERIT operates as a single proprietary fund; more specifically, as an enterprise fund. A proprietary fund is used to account for activities similar to those found in the private sector, where determination of net income is necessary or useful to sound financial administration. An enterprise fund is used because the services provided by KERIT's activities are provided to outside parties, the local governmental members of KERIT.

The accounts of KERIT are organized on the basis of claim years, each of which is accounted for separately because the composition of membership may change from year to year.

**Basis of Accounting**

Basis of accounting refers to the period in which revenue and expenditures are recognized in the accounts and reported in the financial statements, and relates to the timing of the measurement made, regardless of the measurement focus applied.

As a proprietary fund, KERIT employs the accrual basis of accounting wherein revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

KERIT follows the cost of services or "economic resources" measurement focus under which all assets and all liabilities associated with the activity of providing insurance services are included within the fund.

**Assets, Liabilities and Net Position**

**Cash and Cash Equivalents** – The Trust considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash and cash equivalents consisted primarily of deposit and money market accounts.

**Investments and Investment Income** – Investments in debt securities are carried at fair value. Fair value is determined using quoted market prices received from nationally recognized pricing services.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

**Excess Insurance Recoverables** – KERIT uses excess insurance agreements to reduce its exposure to large losses. Excess insurance permits recovery of a portion of

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

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losses from the excess insurers, although it does not discharge the primary liability of KERIT as direct insurer of the risks and KERIT thus remains contingently liable for amounts which excess carriers might be unable to pay. As of December 31, 2018 and December 31, 2017, the excess reinsurance recoverable based on paid claims was \$7,803 and \$152, respectively. The excess insurance recoverables on unpaid claims are netted with claim reserves. See Claim Reserves section below for further discussion.

**Premium Deficiency Reserves** – Premium deficiency reserves are required for the amount of the anticipated losses, loss adjustment expenses, acquisition costs and maintenance costs that have not previously been expensed and are in excess of the recorded unearned premium reserve on existing policies and anticipated investment income. No premium deficiency reserve was recorded at December 31, 2018 and 2017.

**Claim Reserves** – KERIT establishes claim liabilities based on estimates of the ultimate cost of: 1) claims (including future claim adjustment expenses) that have been reported but not settled, and 2) claims that have been incurred but not reported. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in estimating claim liabilities does not necessarily result in an exact amount.

Claim liabilities are estimated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculations because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Claim liabilities are not discounted to their estimated present values.

Adjustments to claim liabilities are charged or credited to expense in the fiscal year for which they are incurred. The claim reserves have been reduced by \$1,381,048 and \$1,475,547 as of December 31, 2018 and December 31, 2017, respectively, for the excess insurance recoverable for unpaid claims in the 2001, 2005, 2008 and 2010 claim years, as shown below:

	December 31, 2018	December 31, 2017
Specific excess insurance recoverable on unpaid claims:		
Claim year 2001	\$ 445,300	\$ 445,300
Claim year 2005	631,115	631,115
Claim year 2008	54,214	54,214
Claim year 2010	<u>250,419</u>	<u>344,918</u>
Total excess insurance receivables	<u>\$ 1,381,048</u>	<u>\$ 1,475,547</u>

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

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The excess insurance agreement for claim year 2001 is with Swiss Re, which is rated A+ Superior by A.M. Best Company. The excess insurance agreement for claim years 2005, 2008 and 2010 is with Safety National Casualty Corporation, which is rated A+ Superior by A.M. Best Company.

**Unbilled Supplemental Assessment** – KERIT is an assessable fund in which the members participating in a given claim year will be assessed additional contributions if expenses exceed revenues for such claim year. As of December 31, 2018 and December 31, 2017, the unbilled supplemental assessment receivable was \$213,534 and \$149,156, respectively.

**Unallocated Loss Adjustment Expenses** – This reserve recognizes the future cost of claims administration for all open and incurred but not reported claims.

**Unearned Contributions** – Contributions are billed and collected in advance and recognized as revenue over the period for which insurance protection is provided. The contributions are calculated using estimates of each member's payroll. After the end of the claim year, the contributions are recalculated using actual payroll information, resulting in either additional contributions due to KERIT or a liability for excess (unearned) contributions received.

**Net Position** – The restricted expendable net position is equal to the ending net positions for both the current claim year and the prior claim year to comply with the statutory restriction that does not allow refunds of contributions from these two claim years. KERIT first applies restricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

### **Operating Revenues and Expenses**

Operating revenues and operating expenses include only those revenues and expenses directly associated with the provision of workers' compensation coverage to the members. Operating revenues include contribution income, net of excess insurance expense, and supplemental contribution assessments that are due from members for workers' compensation coverage.

Operating expenses include losses and loss adjustment expenses (claims) incurred under the workers' compensation coverage provided to the members. Also included are administrative expenses, loss prevention and insurance taxes. Administrative expenses include: the claims administration fees for processing and paying claims submitted by the members; other insurance premiums; and general and administrative expenses.

**Contributions** – Contributions are billed in advance and recognized as revenue over the period for which insurance protection is provided. Contributions are calculated using underwriting criteria for workers' compensation coverage.

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

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**Incurred Losses and Recoveries** – Incurred losses and recoveries represent the expense of providing workers’ compensation benefits as mandated by state workers’ compensation laws and the Kansas Department of Insurance regulations. The incurred losses and recoveries include:

- Paid claims
- Claim reserves
- Incurred but not reported claims and loss development reserves
- Excess insurance recoveries and other recoveries

**Refunds of Contributions** – Refunds of contributions are distributions of excess net position to the members. To the extent that revenues exceed expenses in a given claim year after all or nearly all related claims have been settled and the Board of Trustees authorizes a full or partial distribution of the surplus for the claim year, members participating in such claim year will be entitled to receive a refund of contributions.

**Non-operating Revenues and Expenses**

Non-operating revenues and expenses include investment income and increase (decrease) in fair value of investments.

**Statement of Cash Flows** – For purposes of the statement of cash flows, cash and cash equivalents includes deposit and money market accounts. There were no noncash capital or financing activities during the fiscal years ending 2018 and 2017.

**Federal and State Income Taxes** – In the opinion of legal counsel, KERIT is not subject to income taxes under Section 115 of the Internal Revenue Code.

**Acquisition Costs** – KERIT incurred broker fees of \$151,500 and \$41,519 in fiscal years 2018 and 2017, respectively. In 2018, KERIT terminated its vendor agreement for marketing services with a one-time settlement payment of \$131,821. There are no acquisition costs capitalized in the accompanying financial statements.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Risks and Uncertainties** – Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least possible that changes in risks in the near term would materially

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

affect the amounts reported in the statement of net position and the statement of revenues, expenses and changes in net position.

**Significant Accounting Pronouncements** – Management has reviewed upcoming and pending accounting pronouncements and has determined that they are not applicable to KERIT.

**2. Self-Insured Retention and Excess Insurance**

KERIT uses excess insurance agreements to reduce its exposure to large workers' compensation losses. Excess insurance permits recovery of a portion of losses from the excess insurers, although it does not discharge the primary liability of KERIT as direct insurer of the risks.

KERIT retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance. For all claim years prior to 2010, KERIT has purchased specific (per occurrence) and aggregate excess insurance coverage. Beginning with claim year 2010, KERIT purchased only specific insurance coverage. The following chart reflects the self-insured retention amounts and the excess insurance limits:

	2009	2010	Claim Year 2011	2012	2013
Self-insured retention:					
Specific excess insurance	\$ 400,000	\$ 400,000	\$ 400,000	\$ 450,000	\$ 500,000
Aggregate excess insurance	3,161,107	-	-	-	-
Limits:					
Specific excess insurance	Statutory	Statutory	Statutory	Statutory	Statutory
Aggregate excess insurance	5,000,000	-	-	-	-
Loss fund revenues (Note 1)	1,719,281	1,915,643	1,624,538	1,876,274	2,154,858
Estimated incurred claims and expenses	1,081,887	2,197,330	778,773	633,310	1,640,974
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Self-insured retention:					
Specific excess insurance	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 550,000
Aggregate excess insurance	-	-	-	-	-
Limits:					
Specific excess insurance	Statutory	Statutory	Statutory	Statutory	Statutory
Aggregate excess insurance	-	-	-	-	-
Loss fund revenues (Note 1)	2,037,184	2,239,372	2,215,312	2,099,331	2,252,848
Estimated incurred claims and expenses	1,598,295	2,395,683	1,474,870	1,444,387	2,207,226

Note 1: For each claim year, KERIT allocates 70 percent of the premiums to a loss fund and the remaining 30 percent to an administrative fund. The loss fund revenues shown above include 70 percent of premiums and any supplemental premium assessments to cover deficiencies.

The members would be assessed if in any claim year losses are greater than the total of the aggregate retention amount and the excess insurance limit.

The amounts of excess insurance recoveries paid and accrued as compared with the premiums

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

paid for the last ten claim years are shown below:

	2009	2010	Claim Year 2011	2012	2013
Excess insurance premiums paid	<u>\$ 270,107</u>	<u>\$ 197,508</u>	<u>\$ 200,564</u>	<u>\$ 218,059</u>	<u>\$ 256,121</u>
Excess insurance recoveries:					
Paid to KERIT	\$ -	\$ 757,820	\$ -	\$ -	\$ -
Accrued	-	258,222	-	-	-
Total recoveries	<u>\$ -</u>	<u>\$ 1,016,042</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	2014	2015	2016	2017	2018
Excess insurance premiums paid	<u>\$ 308,507</u>	<u>\$ 339,108</u>	<u>\$ 354,472</u>	<u>\$ 367,046</u>	<u>\$ 361,604</u>
Excess insurance recoveries:					
Paid to KERIT	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued	-	-	-	-	-
Total recoveries	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### 3. Reconciliation of Claim Reserves

Claim reserves are based upon estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The changes in claim reserves from the beginning of the year are as follows:

	2018	2017
Claim reserves at beginning of year, net of recoveries	<u>\$ 3,410,662</u>	<u>\$ 3,630,912</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	2,207,226	1,737,589
Increase (decrease) in provision for insured events of prior years (Note 1)	<u>(474,116)</u>	<u>(400,323)</u>
Total incurred claims and claim adjustment expenses	<u>1,733,110</u>	<u>1,337,266</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	844,674	473,673
Claims and claim adjustment expenses attributable to insured events of prior years	<u>824,843</u>	<u>1,083,843</u>
Total payments, net of recoveries	<u>1,669,517</u>	<u>1,557,516</u>
Claim reserves at end of year, net of recoveries	<u>\$ 3,474,255</u>	<u>\$ 3,410,662</u>

Note 1: As a result of changes in estimates for insured events of prior years, the provision for unpaid claims and claim adjustment expenses decreased by \$474,116 and \$400,323 in 2018 and 2017, respectively.

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

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**4. Cash and Investments**

KERIT's trust agreement and bylaws contain no provision regarding deposits or the type of investments that may be purchased. KERIT does not have a formal policy regarding collateralization of deposits. The state of Kansas restricts the types of investments that KERIT may purchase. Permitted investments include government and corporate obligations, stocks, real estate and a variety of other securities and debt instruments, although many of the options are available only if a number of specified criteria are satisfied.

KERIT maintains various deposit accounts to handle the cash receipts, disbursements and idle cash balance. Uninsured balances of approximately \$770,000 as of December 31, 2018 and \$597,000 as of December 31, 2017 are collateralized with securities held by the pledging financial institution's trust department.

The fair value of investments by contractual maturity as of December 31, 2018 and December 31, 2017 is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Estimated Fair Value December 31, 2018</b>	<b>Estimated Fair Value December 31, 2017</b>
Less than one year	\$ 1,192,759	\$ 1,587,261
One to five years	5,875,616	5,653,658
Five to ten years	1,672,378	1,398,362
Beyond 10 years	726,936	415,979
Total investments	<u>\$ 9,467,689</u>	<u>\$ 9,055,260</u>

The fair value of investments by type as of December 31, 2018 and 2017 is shown below:

	<b>Estimated Fair Value December 31, 2018</b>	<b>Estimated Fair Value December 31, 2017</b>
<b>Securities issued by agencies of the U.S. Government:</b>		
Federal Home Loan Bank	\$ 2,366,211	\$ 2,581,078
Federal Farm Credit Bank	1,839,237	2,361,957
Federal National Mortgage Association	2,548,922	1,890,757
Federal Home Loan Mortgage Corporation	1,036,376	1,041,468
U.S. Treasury Note	246,943	-
Certificates of Deposit	1,430,000	1,180,000
Total investments	<u>\$ 9,467,689</u>	<u>\$ 9,055,260</u>

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

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**Interest Rate Risk**

KERIT does not have a formal policy relating to interest rate risk. Investment maturities are limited as follows:

<b>Maturity</b>	<b>Maximum/Minimum Investment</b>
Within five years	30 % minimum
Five to ten years	70 maximum
Beyond ten years	10 maximum

**Custodial Credit Risk**

KERIT's investments are subject to custodial credit risk because none are collateralized by the financial institution acting as custodian. KERIT does not have a formal policy regarding custodial credit risk for investments.

**Credit Risk**

KERIT's Board-approved investment policy allows investments in the following:

1. U.S. Treasury securities (bills, notes or bonds) or securities guaranteed by the U.S. Government;
2. Securities issued by agencies of the U.S. Government (including mortgage-backed securities) but not necessarily guaranteed by the U.S. Government;
3. Federally insured certificates of deposit in banks; or
4. Agency-issued pass-through mortgage-backed securities with stated maturities of up to 30 years.

KERIT's investments consist solely of securities issued by agencies of the U.S. Government. The U.S. Government agency bonds held as of December 31, 2018 and December 31, 2017 are implicitly guaranteed by the U.S. Government and are rated Aaa by Moody's and AAA by S&P.

**5. Fair Value Measurements**

The framework for measuring fair value establishes a fair value hierarchy that prioritizes the inputs used in valuation techniques to measure fair value. An asset's or liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Level 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets that KERIT has the ability to access at the measurement date.

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

Level 2 - Valuations derived from techniques that utilize observable inputs, other than quoted prices included in Level 1, which are observable for the asset or liability either directly or indirectly, such as:

- (a) Quoted prices for similar assets or liabilities in active markets.
- (b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
- (c) Inputs other than quoted prices that are observable.
- (d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Valuations derived from techniques in which the significant inputs are unobservable. Level 3 fair values reflect KERIT's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

KERIT has analyzed the valuation techniques and related inputs, evaluated its assets and liabilities reported at fair value, and determined an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs.

The following table presents the carrying value and estimated fair value of KERIT's significant financial instruments at December 31, 2018 and 2017:

	<b>2018</b>			
	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
U.S. Treasury Note	\$ 246,943	-	\$ 246,943	-
U.S. government agencies	7,790,746	-	7,790,746	-
	<u>\$ 8,037,689</u>	<u>\$ -</u>	<u>\$ 8,037,689</u>	<u>\$ -</u>
	<b>2017</b>			
	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
U.S. government agencies	\$ 7,875,260	-	\$ 7,875,260	-

The fair values of U.S. Treasury Notes and U.S. government agencies are based on prices from a third-party pricing service based on market observable information such as market quotes for similar assets, as well as normal market pricing considerations such as duration, interest rates, and prepayment assumptions. There were no transfers between fair value levels during the years ended December 31, 2018 and 2017.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2018 and 2017. Although management is not aware of any

**Kansas Eastern Region Insurance Trust**  
**Notes to Basic Financial Statements, Continued**  
**For the Years Ended December 31, 2018 and 2017**

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factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

**6. Service Agency Agreement**

KERIT has entered into separate agreements with two companies whereby KERIT is to receive administrative, accounting, loss control and claims management services for the workers' compensation program for service fees. For fiscal years 2018 and 2017, these fees totaled \$313,476 and \$282,818, respectively.

**7. Contingencies**

In 2004, KERIT entered into a structured settlement with Medicare to cover future medical costs for a claimant. As part of the settlement, KERIT purchased an annuity to cover costs up to \$77,047. The present value of the annuity is \$37,311 and \$38,628 at December 31, 2018 and 2017, respectively. Should the life insurer fail to perform under the terms of the annuity, KERIT would then be liable to make payments up to the covered medical costs.

**8. Risk Management**

KERIT is exposed to various risks of loss related to torts, trustee automobile travel and errors and omissions. KERIT does not own property nor have employees. KERIT has purchased commercial errors and omissions, fidelity bond and automobile coverages. There have been no claims on any of the purchased coverages since inception.



## **REQUIRED SUPPLEMENTARY INFORMATION**

## **Kansas Eastern Region Insurance Trust**

### **Ten-Year Loss Development Information**

#### **For the Ten-Year Period Ended December 31, 2018**

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The following table illustrates how KERIT's earned revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurance carriers and other expenses assumed by KERIT) as of the end of each of the previous ten years. The rows of the table are defined as follows:

1. Contributions and Investment Income  
This line shows the total of each claim year's gross earned contributions, supplemental contribution assessments and earned investment revenue, amounts of ceded excess insurance premiums, and net earned contributions (net of excess insurance) and investment income.
2. Unallocated Expenses  
This line shows each claim year's other operating costs of the program including administrative expenses, taxes, loss control and loss adjustment expenses not allocable to individual claims.
3. Estimated Incurred Claims and Expenses  
This line shows KERIT's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurance carriers, and net incurred losses and loss adjustment expenses (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called claim year).
4. Net Paid (Cumulative)  
This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each claim year.
5. Reestimated Ceded Claims and Expenses  
This line shows the latest reestimated amount of losses assumed by excess insurance carriers for each claim year.
6. Reestimated Incurred Claims and Expenses  
This section of ten rows shows how each claim year's net incurred losses increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known losses, reevaluation of existing information on known losses, and emergence of new losses not previously known.)
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year  
This line compares the latest reestimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate is greater or less than originally thought. As data for individual claim years matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature accident years.
8. Number of Claims Reported  
This line shows the total number of claims reported including lost time claims, medical only claims, fatalities and incidents that had no incurred costs.
9. Open Claims  
This line shows the number of reported claims that have a liability for future claim payments.

The columns of the table show data for successive claim years.

**Kansas Eastern Region Insurance Trust**  
**Ten-Year Loss Development Information**  
**For the Ten-Year Period Ended December 31, 2018**

	2009	2010	2011	2012	2013
1. Contributions and investment income:					
Earned	\$ 2,559,448	\$ 2,774,740	\$ 2,402,025	\$ 2,768,236	\$ 3,137,879
Ceded - excess insurance premiums	(270,107)	(197,508)	(200,564)	(218,059)	(256,121)
Net earned	<u>\$ 2,289,341</u>	<u>\$ 2,577,232</u>	<u>\$ 2,201,461</u>	<u>\$ 2,550,177</u>	<u>\$ 2,881,758</u>
2. Unallocated expenses	<u>\$ 318,528</u>	<u>\$ 379,902</u>	<u>\$ 309,254</u>	<u>\$ 349,527</u>	<u>\$ 415,774</u>
3. Estimated incurred claims and expenses at end of policy year as originally reported:					
Incurred	\$ 1,541,000	\$ 2,371,891	\$ 1,468,000	\$ 1,173,000	\$ 2,211,000
Ceded - excess insurance recoveries	-	(118,891)	-	-	-
Net incurred	<u>\$ 1,541,000</u>	<u>\$ 2,253,000</u>	<u>\$ 1,468,000</u>	<u>\$ 1,173,000</u>	<u>\$ 2,211,000</u>
4. Net paid (cumulative) as of:					
December 31, 2009	\$ 529,528				
December 31, 2010	831,181	\$ 650,812			
December 31, 2011	976,686	1,375,843	\$ 408,416		
December 31, 2012	1,036,270	1,601,579	721,227	\$ 352,983	
December 31, 2013	1,063,918	1,854,113	763,086	547,172	\$ 539,040
December 31, 2014	1,064,074	1,855,923	775,514	552,741	1,080,661
December 31, 2015	1,064,074	1,976,747	776,092	561,253	1,341,779
December 31, 2016	1,064,080	1,985,954	776,092	571,188	1,456,640
December 31, 2017	1,064,080	2,664,619	776,092	610,185	1,514,060
December 31, 2018	1,064,080	2,791,005	776,092	610,185	1,514,541
5. Re-estimated ceded claims and expenses - Excess insurance recoveries					
December 31, 2018	\$ -	\$ (1,016,042)	\$ -	\$ -	\$ -
6. Re-estimated incurred claims and expenses:					
December 31, 2009	\$ 1,541,000				
December 31, 2010	1,253,000	\$ 2,253,000			
December 31, 2011	1,063,000	2,118,000	\$ 1,468,000		
December 31, 2012	1,104,000	2,182,000	1,054,000	\$ 1,173,000	
December 31, 2013	1,084,000	2,148,000	827,880	763,000	\$ 2,211,000
December 31, 2014	1,084,000	2,216,000	793,000	627,000	1,791,000
December 31, 2015	1,083,000	2,163,000	782,000	632,000	1,713,000
December 31, 2016	1,089,008	2,199,580	779,339	660,485	1,652,332
December 31, 2017	1,088,370	2,205,794	778,969	627,646	1,647,541
December 31, 2018	1,081,887	2,197,330	778,773	633,310	1,640,975
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	\$ (459,113)	\$ (55,670)	\$ (689,227)	\$ (539,690)	\$ (570,025)
8. Number of claims reported as of:					
December 31, 2018	442	447	445	438	470
9. Open claims as of December 31, 2018	3	6	1	1	4

**Kansas Eastern Region Insurance Trust**  
**Ten-Year Loss Development Information, Continued**  
**For the Ten-Year Period Ended December 31, 2018**

	2014	2015	2016	2017	2018
1. Contributions and investment income:					
Earned	\$ 2,982,599	\$ 3,244,142	\$ 3,188,991	\$ 3,120,169	\$ 3,275,618
Ceded - excess insurance premiums	(308,507)	(339,108)	(354,472)	(367,046)	(361,604)
Net earned	<u>\$ 2,674,092</u>	<u>\$ 2,905,034</u>	<u>\$ 2,834,519</u>	<u>\$ 2,753,123</u>	<u>\$ 2,914,014</u>
2. Unallocated expenses	<u>\$ 411,320</u>	<u>\$ 509,350</u>	<u>\$ 493,979</u>	<u>\$ 518,057</u>	<u>\$ 706,787</u>
3. Estimated incurred claims and expenses at end of policy year as originally reported:					
Incurred	\$ 1,923,000	\$ 2,390,000	\$ 1,812,472	\$ 1,736,745	\$ 2,207,227
Ceded - excess insurance recoveries	-	-	-	-	-
Net incurred	<u>\$ 1,923,000</u>	<u>\$ 2,390,000</u>	<u>\$ 1,812,472</u>	<u>\$ 1,736,745</u>	<u>\$ 2,207,227</u>
4. Net paid (cumulative) as of:					
December 31, 2009					
December 31, 2010					
December 31, 2011					
December 31, 2012					
December 31, 2013					
December 31, 2014	\$ 626,638				
December 31, 2015	1,170,780	\$ 748,910			
December 31, 2016	1,373,167	1,448,175	\$ 588,662		
December 31, 2017	1,478,774	1,728,411	1,068,600	\$ 472,830	
December 31, 2018	1,568,549	1,868,390	1,127,167	914,029	\$ 844,674
5. Re-estimated ceded claims and expenses - Excess insurance recoveries					
December 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated incurred claims and expenses:					
December 31, 2009					
December 31, 2010					
December 31, 2011					
December 31, 2012					
December 31, 2013					
December 31, 2014	\$ 1,923,000				
December 31, 2015	1,808,000	\$ 2,390,000			
December 31, 2016	1,830,475	2,529,228	\$ 1,812,472		
December 31, 2017	1,599,707	2,395,141	1,669,028	\$ 1,736,745	
December 31, 2018	1,598,295	2,395,684	1,474,870	1,444,388	\$ 2,207,227
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	\$ (324,705)	\$ 5,684	\$ (337,602)	\$ (292,357)	N/A
8. Number of claims reported as of:					
December 31, 2018	411	425	482	419	496
9. Open claims as of December 31, 2018	3	6	6	11	123

## **STATISTICAL SECTION**

## Index and Explanations of Schedules and Tables Included in the Statistical Section

The goal of the statistical section is to provide the reader with additional information regarding KERIT’s economic condition. This information is helpful to understand and assess how KERIT’s financial position has changed over time. In addition, the information provides a context for understanding how KERIT operates. Exposure information is also provided and reflects the size and diversification of the members.

The schedules and tables are listed below with a brief explanation of the purpose.

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<p style="margin-left: 40px;">This schedule summarizes the results of each claim year. It includes any additional supplemental contribution assessments and refunds of contributions distributed to the members. The total number of claims and the number of open claims as of December 31, 2018 are also included.</p>	
Net Position Information by Fiscal Year.....	48
<p style="margin-left: 40px;">This schedule summarizes: 1) the changes to net position and 2) net position by component for the past ten fiscal years. It includes information on unrestricted funds.</p>	
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<p style="margin-left: 40px;">These schedules provide detailed information on the operating revenues and expenses for each of the last ten claim years.</p>	
Comparative Chart of Operating Revenues and Expenses by Claim Year for the Claim Years Ended December 31, 2009 through December 31, 2018.....	51
<p style="margin-left: 40px;">This chart displays a visual comparison of the operating revenues to operating expenses by claim year.</p>	
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<p style="margin-left: 40px;">This table lists the key exposure values for each member as of December 31, 2018 and reflects the diversification of the members by size. The total payroll amounts used for premium calculations are compared to the amounts nine years prior.</p>	
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<p style="margin-left: 40px;">This table lists the ten largest employers in KERIT’s membership as of December 31, 2018 and nine years prior.</p>	
Selected Payroll Data .....	59
<p style="margin-left: 40px;">This table provides the payroll amounts by job classification for the last ten years. This payroll information was used to calculate member contributions.</p>	

**Kansas Eastern Region Insurance Trust**  
**Net Position Information by Claim Year**  
**December 31, 2018**

Claim Year Ended	Cumulative Surplus/ (Deficit)	Supplemental Assessment Collected/ Accrued Note 1	Supplemental Assessment Refund Liability Note 2	Refunds of Contributions	Net Position at December 31, 2018	Net Position at December 31, 2017	Increase/ (Decrease)	Number of Open Claims	Total Number of Claims
October 31, 1987-1996	\$ 5,477,391	\$ 268,751	\$ -	\$ (5,746,142)	\$ -	\$ -	\$ -	1	6,281
December 31, 1997	1,735,008	-	-	(1,735,008)	-	-	-	-	590
December 31, 1998	410,265	-	-	(410,265)	-	-	-	-	447
December 31, 1999	631,827	-	-	(631,827)	-	-	-	-	406
December 31, 2000	(294,968)	294,968	-	-	-	-	-	-	451
December 31, 2001	(102,888)	135,460	(32,572)	-	-	-	-	1	447
December 31, 2002	395,736	-	-	(384,602)	11,134	16,940	(5,806)	-	415
December 31, 2003	780,117	-	-	(639,913)	140,204	157,572	(17,368)	1	361
December 31, 2004	1,059,319	-	-	(849,171)	210,148	225,701	(15,553)	3	362
December 31, 2005	1,290,248	-	-	(1,070,820)	219,428	234,935	(15,507)	3	373
December 31, 2006	1,350,983	-	-	(827,899)	523,084	544,922	(21,838)	4	384
December 31, 2007	839,455	-	-	(632,291)	207,164	225,807	(18,643)	5	471
December 31, 2008	374,652	-	-	(268,072)	106,580	115,137	(8,557)	7	492
December 31, 2009	888,926	-	-	(464,115)	424,811	444,743	(19,932)	3	442
December 31, 2010	(355,470)	355,470	-	-	-	-	-	6	447
December 31, 2011	1,113,434	-	-	(405,928)	707,506	737,265	(29,759)	1	445
December 31, 2012	1,567,340	-	-	(590,455)	976,885	1,024,303	(47,418)	1	438
December 31, 2013	825,009	-	-	(197,718)	627,291	638,443	(11,152)	4	470
December 31, 2014	664,477	-	-	(49,612)	614,865	629,674	(14,809)	3	411
December 31, 2015	(2,195)	2,195	-	-	-	-	-	6	425
December 31, 2016	865,670	-	-	(16,255)	849,415	644,898	204,517	5	482
December 31, 2017	790,678	-	-	-	790,678	454,103	336,575	11	419
December 31, 2018	(117,572)	117,572	-	-	-	-	-	123	496
	<u>\$20,187,442</u>	<u>\$ 1,174,416</u>	<u>\$ (32,572)</u>	<u>\$ (14,920,094)</u>	<u>\$ 6,409,193</u>	<u>\$ 6,094,443</u>	<u>\$ 314,750</u>	<u>188</u>	<u>15,955</u>

Note 1: Supplemental assessments collected/accrued includes assessments that have been accrued and/or billed and collected for a claim year that had an operating deficit.

Note 2: Supplemental assessment refund liability includes assessments that have been collected when there was a deficiency. Due to positive loss development and additional investment income, the previous supplemental assessment has been reduced and the excess will be refunded at a future date when all claims are closed.

**Kansas Eastern Region Insurance Trust**  
**Net Position Information by Fiscal Year**  
**For the Fiscal Years Ended December 31, 2009 through December 31, 2018**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Changes in net position</b>										
Operating revenues	\$ 2,180,820	\$ 2,613,130	\$ 1,999,701	\$ 2,502,737	\$ 2,781,811	\$ 2,683,185	\$ 2,829,662	\$ 2,977,449	\$ 2,474,632	\$ 2,836,906
Operating expenses	(2,864,651)	(2,896,207)	(2,001,693)	(1,800,476)	(2,518,445)	(2,886,626)	(3,440,374)	(3,243,350)	(2,174,294)	(2,662,263)
Non-operating revenues (losses)	<u>135,623</u>	<u>152,498</u>	<u>98,132</u>	<u>115,098</u>	<u>(81,684)</u>	<u>226,938</u>	<u>164,510</u>	<u>89,836</u>	<u>123,727</u>	<u>140,107</u>
Increase (decrease) in net position	<u>\$ (548,208)</u>	<u>\$ (130,579)</u>	<u>\$ 96,140</u>	<u>\$ 817,359</u>	<u>\$ 181,682</u>	<u>\$ 23,497</u>	<u>\$ (446,202)</u>	<u>\$ (176,065)</u>	<u>\$ 424,065</u>	<u>\$ 314,750</u>
<b>Net position:</b>										
Restricted	\$ 823,783	\$ 660,093	\$ 298,007	\$ 1,408,875	\$ 1,490,212	\$ 846,681	\$ 413,518	\$ 474,275	\$ 1,099,002	\$ 790,678
Unrestricted	<u>4,480,763</u>	<u>4,513,874</u>	<u>4,972,100</u>	<u>4,678,591</u>	<u>4,778,936</u>	<u>5,445,964</u>	<u>5,432,925</u>	<u>5,196,103</u>	<u>4,995,441</u>	<u>5,618,515</u>
Total net position	<u>\$ 5,304,546</u>	<u>\$ 5,173,967</u>	<u>\$ 5,270,107</u>	<u>\$ 6,087,466</u>	<u>\$ 6,269,148</u>	<u>\$ 6,292,645</u>	<u>\$ 5,846,443</u>	<u>\$ 5,670,378</u>	<u>\$ 6,094,443</u>	<u>\$ 6,409,193</u>

**Kansas Eastern Region Insurance Trust**  
**Comparative Schedule of Revenues and Expenses - Claim Year Basis**  
**For the Claim Years Ended December 31, 2009 through December 31, 2018**

	2009	2010	Claim Year 2011	2012	2013
Operating revenues:					
Contributions earned, net of excess insurance premiums	\$ 2,186,009	\$ 2,183,655	\$ 2,120,204	\$ 2,462,333	\$ 2,822,247
Supplemental contribution assessments	-	355,470	-	-	-
Total operating revenues	<u>2,186,009</u>	<u>2,539,125</u>	<u>2,120,204</u>	<u>2,462,333</u>	<u>2,822,247</u>
Operating expenses:					
Incurring losses and recoveries:					
Claims paid	1,065,795	2,804,570	776,092	636,076	1,519,140
Subrogation/recoveries	(1,715)	(13,565)	-	(25,891)	(4,600)
Excess insurance recoveries	-	(1,016,042)	-	-	-
Reserves	17,807	422,367	2,681	23,125	126,434
Total incurred losses and recoveries	<u>1,081,887</u>	<u>2,197,330</u>	<u>778,773</u>	<u>633,310</u>	<u>1,640,974</u>
Administrative expenses	195,437	212,064	188,343	220,397	233,869
Loss control	73,574	71,320	75,738	84,873	89,373
Insurance taxes	49,517	96,518	45,174	44,257	92,533
Refunds of contributions	464,115	-	405,928	590,455	197,718
Total operating expenses	<u>1,864,530</u>	<u>2,577,232</u>	<u>1,493,956</u>	<u>1,573,292</u>	<u>2,254,467</u>
Operating income (loss)	321,479	(38,107)	626,248	889,041	567,780
Non-operating income					
Investment income (Note 1)	<u>103,332</u>	<u>38,107</u>	<u>81,258</u>	<u>87,844</u>	<u>59,511</u>
Increase in net position	<u>\$ 424,811</u>	<u>\$ -</u>	<u>\$ 707,506</u>	<u>\$ 976,885</u>	<u>\$ 627,291</u>
Net position					
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	<u>424,811</u>	<u>-</u>	<u>707,506</u>	<u>976,885</u>	<u>627,291</u>
Total net position	<u>\$ 424,811</u>	<u>\$ -</u>	<u>\$ 707,506</u>	<u>\$ 976,885</u>	<u>\$ 627,291</u>
Number of open claims at December 31, 2018	3	6	1	1	4

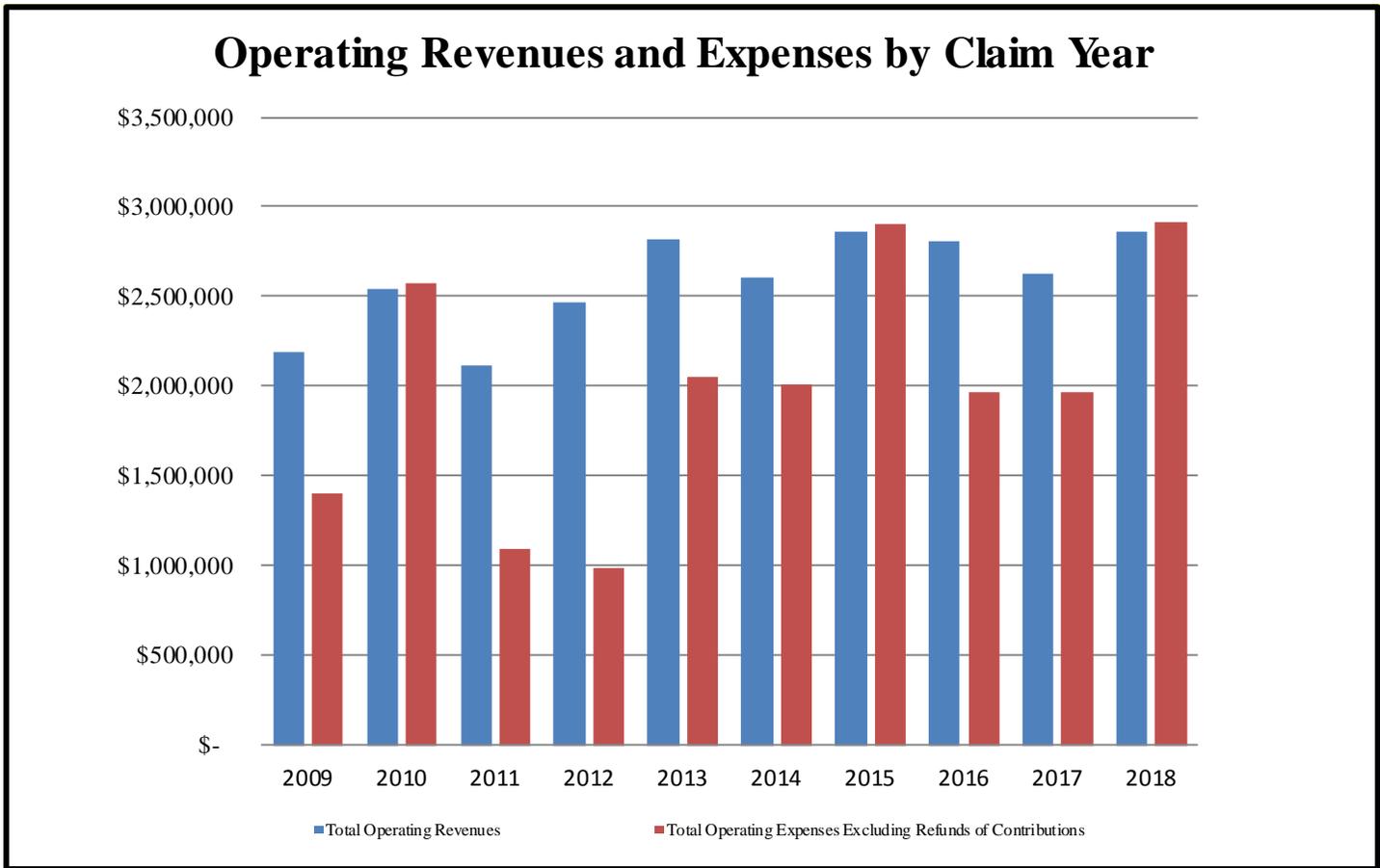
Note 1: The net increase (decrease) in fair value of investments is included in investment income.

**Kansas Eastern Region Insurance Trust**  
**Comparative Schedule of Revenues and Expenses - Claim Year Basis, Continued**  
**For the Claim Years Ended December 31, 2009 through December 31, 2018**

	2014	2015	Claim Year 2016	2017	2018
Operating revenues:					
Contributions earned, net of excess insurance premiums	\$ 2,601,756	\$ 2,857,800	\$ 2,810,259	\$ 2,631,998	\$ 2,739,178
Supplemental contribution assessments	-	2,195	-	-	117,572
Total operating revenues	<u>2,601,756</u>	<u>2,859,995</u>	<u>2,810,259</u>	<u>2,631,998</u>	<u>2,856,750</u>
Operating expenses:					
Incurring losses and recoveries:					
Claims paid	1,577,634	1,869,163	1,169,671	914,872	846,493
Subrogation/recoveries	(9,085)	(774)	(42,504)	(844)	(1,820)
Excess insurance recoveries	-	-	-	-	-
Reserves	29,746	527,294	347,703	530,359	1,362,553
Total incurred losses and recoveries	<u>1,598,295</u>	<u>2,395,683</u>	<u>1,474,870</u>	<u>1,444,387</u>	<u>2,207,226</u>
Administrative expenses	240,200	309,538	322,882	331,088	501,992
Loss control	96,656	99,525	100,930	114,170	101,696
Insurance taxes	74,464	100,288	70,167	72,800	103,100
Refunds of contributions	49,612	-	16,255	-	-
Total operating expenses	<u>2,059,227</u>	<u>2,905,034</u>	<u>1,985,104</u>	<u>1,962,445</u>	<u>2,914,014</u>
Operating income (loss)	542,529	(45,039)	825,155	669,553	(57,264)
Non-operating income					
Investment income (Note 1)	<u>72,336</u>	<u>45,039</u>	<u>24,260</u>	<u>121,125</u>	<u>57,264</u>
Increase in net position	<u>\$ 614,865</u>	<u>\$ -</u>	<u>\$ 849,415</u>	<u>\$ 790,678</u>	<u>\$ -</u>
Net position					
Restricted	\$ -	\$ -	\$ -	\$ 790,678	\$ -
Unrestricted	<u>614,865</u>	<u>-</u>	<u>849,415</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$ 614,865</u>	<u>\$ -</u>	<u>\$ 849,415</u>	<u>\$ 790,678</u>	<u>\$ -</u>
Number of open claims at December 31, 2018	3	6	5	11	123

Note 1: The net increase (decrease) in fair value of investments is included in investment income.

**Kansas Eastern Region Insurance Trust**  
**Comparative Chart of Operating Revenues and Expenses by Claim Year**  
**For the Claim Years Ended December 31, 2009 through December 31, 2018**



**Kansas Eastern Region Insurance Trust**  
**Comparative Schedule of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Years Ended December 31, 2009 through December 31, 2018**

	2009	2010	Fiscal Year 2011	2012	2013
Operating revenues:					
Contributions earned	\$ 2,186,009	\$ 2,183,655	\$ 2,120,204	\$ 2,463,260	\$ 2,821,320
Supplemental contribution assessments	(5,189)	429,476	(120,503)	39,477	(39,509)
Total operating revenues	<u>2,180,820</u>	<u>2,613,131</u>	<u>1,999,701</u>	<u>2,502,737</u>	<u>2,781,811</u>
Operating expenses:					
Incurred losses and recoveries:					
Claims paid	1,440,333	1,468,014	1,515,631	1,120,149	1,396,983
Subrogation/recoveries	(117,771)	(30,092)	(13,809)	(2,926)	(1,772)
Change in excess insurance recoveries	22,950	(118,891)	(18,911)	-	(656,000)
Changes in reserves	(248,117)	737,183	(394,163)	(42,418)	872,926
Total incurred losses and recoveries	<u>1,097,395</u>	<u>2,056,214</u>	<u>1,088,748</u>	<u>1,074,805</u>	<u>1,612,137</u>
Administrative expenses	181,725	217,440	190,110	216,358	242,898
Loss control	73,574	71,320	75,738	84,873	89,373
Insurance taxes	40,623	51,156	143,089	13,098	53,460
Refunds of contributions	<u>1,471,334</u>	<u>500,078</u>	<u>504,008</u>	<u>411,341</u>	<u>520,577</u>
Total operating expenses	<u>2,864,651</u>	<u>2,896,208</u>	<u>2,001,693</u>	<u>1,800,475</u>	<u>2,518,445</u>
Operating income (loss)	(683,831)	(283,077)	(1,992)	702,262	263,366
Non-operating income					
Investment income (Note 1)	<u>135,623</u>	<u>152,498</u>	<u>98,132</u>	<u>115,097</u>	<u>(81,684)</u>
Increase (decrease) in net position	(548,208)	(130,579)	96,140	817,359	181,682
Beginning net position	<u>5,852,754</u>	<u>5,304,546</u>	<u>5,173,967</u>	<u>5,270,107</u>	<u>6,087,466</u>
Ending net position	<u>\$ 5,304,546</u>	<u>\$ 5,173,967</u>	<u>\$ 5,270,107</u>	<u>\$ 6,087,466</u>	<u>\$ 6,269,148</u>

Note 1: The net increase (decrease) in fair value of investments is included in investment income.

**Kansas Eastern Region Insurance Trust**  
**Comparative Schedule of Revenues, Expenses and Changes in Net Position, Continued**  
**For the Fiscal Years Ended December 31, 2009 through December 31, 2018**

	2014	2015	Fiscal Year 2016	2017	2018
Operating revenues:					
Contributions earned	\$ 2,601,756	\$ 2,857,800	\$ 2,810,259	\$ 2,631,998	\$ 2,739,178
Supplemental contribution assessments	81,429	(28,138)	167,190	(157,366)	97,728
Total operating revenues	<u>2,683,185</u>	<u>2,829,662</u>	<u>2,977,449</u>	<u>2,474,632</u>	<u>2,836,906</u>
Operating expenses:					
Incurred losses and recoveries:					
Claims paid	1,584,072	1,886,440	1,766,871	1,582,027	1,807,829
Subrogation/recoveries	(26,335)	-	(774)	(10,681)	(43,487)
Change in excess insurance recoveries	-	7,500	(5,000)	(909,654)	(326)
Changes in reserves	27,891	299,647	303,110	675,574	(30,907)
Total incurred losses and recoveries	<u>1,585,628</u>	<u>2,193,587</u>	<u>2,064,207</u>	<u>1,337,266</u>	<u>1,733,109</u>
Administrative expenses	240,685	303,869	348,347	310,688	468,816
Loss control	96,656	99,525	100,930	114,170	101,696
Insurance taxes	178,901	51,145	79,747	54,414	81,325
Refunds of contributions	784,756	792,248	650,119	357,756	277,317
Total operating expenses	<u>2,886,626</u>	<u>3,440,374</u>	<u>3,243,350</u>	<u>2,174,294</u>	<u>2,662,263</u>
Operating income (loss)	(203,441)	(610,712)	(265,901)	300,338	174,643
Non-operating income (loss)					
Investment income (loss) (Note 1)	226,938	164,510	89,836	123,727	140,107
Increase (decrease) in net position	23,497	(446,202)	(176,065)	424,065	314,750
Beginning net position	<u>6,269,148</u>	<u>6,292,645</u>	<u>5,846,443</u>	<u>5,670,378</u>	<u>6,094,443</u>
Ending net position	<u>\$ 6,292,645</u>	<u>\$ 5,846,443</u>	<u>\$ 5,670,378</u>	<u>\$ 6,094,443</u>	<u>\$ 6,409,193</u>

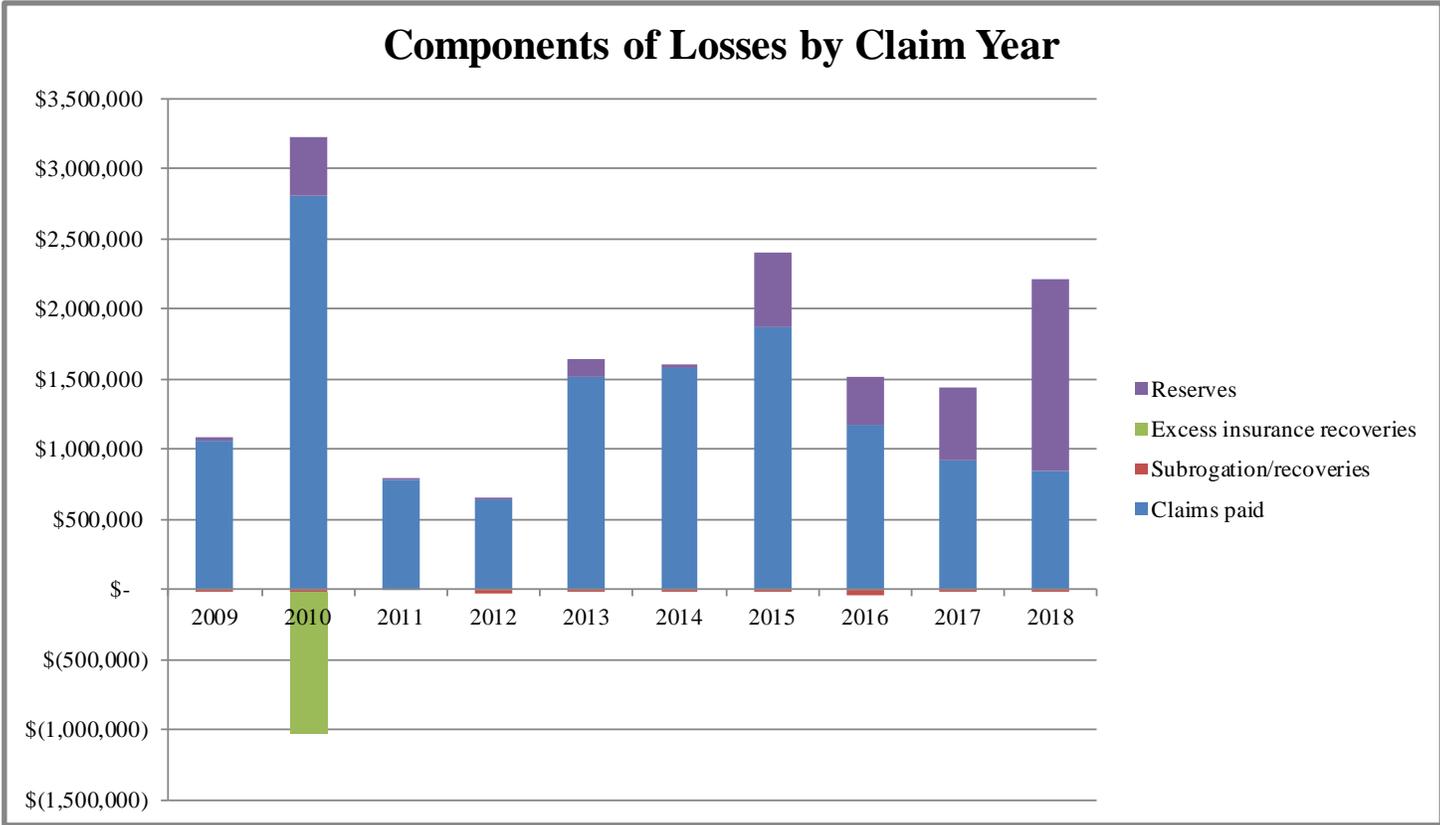
**Kansas Eastern Region Insurance Trust**  
**Selected Contribution Data**  
**For the Ten-Year Period Ended December 31, 2018**

	Since Inception	Claim Year									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of members:											
Cities		12	12	13	14	15	14	15	15	15	15
Counties		2	2	2	2	2	2	2	2	2	2
Other		-	-	-	-	-	1	1	1	1	1
Total		<u>14</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>17</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>
Total annual payrolls		<u>\$ 108 million</u>	<u>\$ 107 million</u>	<u>\$ 108 million</u>	<u>\$ 120 million</u>	<u>\$ 135 million</u>	<u>\$ 141 million</u>	<u>\$ 151 million</u>	<u>\$ 157 million</u>	<u>\$ 162 million</u>	<u>\$ 171 million</u>
Contributions:											
Total contributions calculated	\$ 84,938,425	\$ 2,659,238	\$ 2,603,100	\$ 2,539,974	\$ 2,925,732	\$ 3,359,685	\$ 3,197,778	\$ 3,486,015	\$ 3,386,553	\$ 3,197,858	\$ 3,313,691
Advanced contribution discounts	<u>(6,500,882)</u>	<u>(203,122)</u>	<u>(221,937)</u>	<u>(219,206)</u>	<u>(245,339)</u>	<u>(281,318)</u>	<u>(287,515)</u>	<u>(289,107)</u>	<u>(221,822)</u>	<u>(198,814)</u>	<u>(212,909)</u>
Net contribution billed	<u>\$ 78,437,543</u>	<u>\$ 2,456,116</u>	<u>\$ 2,381,163</u>	<u>\$ 2,320,768</u>	<u>\$ 2,680,393</u>	<u>\$ 3,078,367</u>	<u>\$ 2,910,263</u>	<u>\$ 3,196,908</u>	<u>\$ 3,164,731</u>	<u>\$ 2,999,044</u>	<u>\$ 3,100,782</u>
Percent of discount	<u>7.7%</u>	<u>7.6%</u>	<u>8.5%</u>	<u>8.6%</u>	<u>8.4%</u>	<u>8.4%</u>	<u>9.0%</u>	<u>8.3%</u>	<u>6.6%</u>	<u>6.2%</u>	<u>6.4%</u>
Supplemental contribution assessments:											
Billed and collected	\$ 960,882	\$ -	\$ 263,887	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supplemental assessment refund liability	<u>(32,572)</u>	-	-	-	-	-	-	-	-	-	-
Unbilled	213,534	-	91,583	-	-	-	-	2,195	-	-	117,572
Total	<u>\$ 1,141,844</u>	<u>\$ -</u>	<u>\$ 355,470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,572</u>
Refunds of contributions:											
Distributed	<u>\$ 14,920,094</u>	<u>\$ 464,115</u>	<u>\$ -</u>	<u>\$ 405,928</u>	<u>\$ 590,455</u>	<u>\$ 197,718</u>	<u>\$ 49,612</u>	<u>\$ -</u>	<u>\$ 16,255</u>	<u>\$ -</u>	<u>\$ -</u>

**Kansas Eastern Region Insurance Trust**  
**Selected Loss Data**  
**For the Ten-Year Period Ended December 31, 2018**

	Since Inception	Claim Year									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of lost time claims		30	40	23	16	37	27	15	10	22	32
Number of medical only claims		239	263	260	250	266	242	294	308	251	320
Number of fatality claims		-	1	-	-	-	-	-	-	-	-
Number of incidents only claims		173	140	152	152	166	136	114	159	146	144
Total number of claims	15,955	442	447	445	438	470	411	425	482	419	496
Open claims as of December 31, 2018	188	3	6	1	1	4	3	6	5	11	123
Total losses (paid and estimated)	\$ 50,312,520	\$ 1,083,602	\$ 3,226,937	\$ 778,773	\$ 659,201	\$ 1,645,575	\$ 1,607,380	\$ 2,396,458	\$ 1,517,374	\$ 1,445,232	\$ 2,209,047
Recoveries/Subrogations	(779,940)	(1,715)	(13,565)	-	(25,891)	(4,600)	(9,085)	(774)	(42,504)	(844)	(1,820)
2nd injury fund refunds	(1,526,269)	-	-	-	-	-	-	-	-	-	-
Excess insurance recoveries	(3,034,343)	-	(1,016,042)	-	-	-	-	-	-	-	-
Net losses	\$ 44,971,968	\$ 1,081,887	\$ 2,197,330	\$ 778,773	\$ 633,310	\$ 1,640,975	\$ 1,598,295	\$ 2,395,684	\$ 1,474,870	\$ 1,444,388	\$ 2,207,227
Average cost per claim, total losses	\$ 3,153	\$ 2,452	\$ 7,219	\$ 1,750	\$ 1,505	\$ 3,501	\$ 3,911	\$ 5,639	\$ 3,148	\$ 3,449	\$ 4,454
Average cost per claim, net losses	\$ 2,819	\$ 2,448	\$ 4,916	\$ 1,750	\$ 1,446	\$ 3,491	\$ 3,889	\$ 5,637	\$ 3,060	\$ 3,447	\$ 4,450

**Kansas Eastern Region Insurance Trust**  
**Comparative Chart of Components of Losses by Claim Year**  
**For the Claim Years Ended December 31, 2009 through December 31, 2018**



**Kansas Eastern Region Insurance Trust**  
**Demographic Information on Members**  
**December 31, 2018**

	<b>Member Since</b>	<b>2010 Population</b> Note A	<b>2000 Population</b> Note A	<b>Number of Full-Time Equivalent Employees</b> (at December 31, 2018)	<b>Total Payroll for Claim Year 2018</b>	<b>Percent of Total 2018</b>	<b>Total Payroll for Claim Year 2009</b> (For Comparison Only)	<b>Percent of Total 2009</b>
<b>Cities</b>								
Chanute	May 11, 1990	9,119	9,411	169	\$ 7,545,262	4.42 %	\$ 6,385,167	6.35 %
Coffeyville	January 1, 2013	10,295	N/A	154	7,195,866	4.22	N/A	N/A
Derby	January 15, 2015	22,158	17,807	242	8,367,445	4.90	N/A	N/A
Fairway	November 1, 1988	3,882	3,952	33	1,672,274	0.98	1,308,218	1.30
Gardner	November 1, 1986	19,123	9,396	243	8,451,290	4.95	5,975,525	5.94
Junction City	April 15, 1990	23,353	18,886	264	9,208,984	5.40	7,556,749	7.52
Lansing	November 1, 1986	11,265	9,199	62	2,794,022	1.64	2,489,433	2.48
Leavenworth	January 1, 1991	35,251	35,420	320	12,320,445	7.22	11,097,713	11.04
Leawood	November 1, 1986	31,867	27,656	398	15,280,093	8.96	13,951,456	13.88
McPherson	July 1, 2012	13,155	N/A	232	10,918,320	6.40	N/A	N/A
Merriam	January 1, 1988	11,003	11,008	175	4,976,052	2.92	5,370,985	5.34
Mission	January 1, 2009	9,323	N/A	173	4,917,835	2.88	4,407,879	N/A
Ottawa	December 1, 1989	12,649	11,921	194	7,918,647	4.64	7,050,362	7.01
Shawnee	November 1, 1986	62,209	47,996	338	22,235,622	13.03	18,112,080	18.03
Winfield	September 24, 2011	12,301	N/A	280	8,584,317	5.03	N/A	N/A
<b>Counties</b>								
Atchison County	November 1, 1988	16,924	16,774	200	5,835,004	3.42	4,442,252	4.42
Leavenworth County	November 1, 1986	76,227	68,691	436	16,316,378	9.56	12,390,192	12.32
<b>Other</b>								
Johnson Co. Park & Rec.	January 1, 2014	544,179	N/A	1,115	16,072,150	9.42	N/A	N/A
<b>Total</b>				<b>5,028</b>	<b>\$170,610,006</b>	<b>99.98 %</b>	<b>\$100,538,011</b>	<b>95.62 %</b>

Note A: Source of population data: U.S. Bureau of the Census, 2000 Decennial Census, US Bureau of the Census, 2010 P.L. 94-171 Redistricting Data, and 2010 Demographic Profile

**Kansas Eastern Region Insurance Trust  
Principle Employers  
Current Year and Nine Years Ago**

KERIT Member:	Employer		2018			2009		
			Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Johnson County Parks & Rec. Dist.	Sprint	2018	6,000	1	N/A	7,391	1	N/A
City of Leavenworth	Ft. Leavenworth	2018	5,821	2	N/A	4,595	2	N/A
Johnson County Parks & Rec. Dist.	Olathe United School District	2018	4,850	3	N/A	4,501	3	N/A
Johnson County Parks & Rec. Dist.	Johnson County Government	2018	3,950	4	N/A	3,664	5	N/A
Johnson County Parks & Rec. Dist.	Shawnee Mission School District	2018	3,850	5	N/A	4,027	4	N/A
Johnson County Parks & Rec. Dist.	Garmin International Inc.	2018	3,800	6	N/A	2,657	7	N/A
Johnson County Parks & Rec. Dist.	Blue Valley School District	2018	3,500	7	N/A	3,187	6	N/A
City of Merriam	Adventist Health/Shawnee Mission Med Ctr	2018	3,024	8	N/A	2,930	-----	N/A
Johnson County Parks & Rec. Dist.	Black and Veatch	2018	3,000	9	N/A	1,810	8	N/A
Johnson County Parks & Rec. Dist.	Olathe Health System	2018	2,600	10	N/A	1,754	9	N/A
Total 1 - 10 ranking			40,395			36,516		
Total people employed in KERIT membership					N/A			

Note: The Kansas Eastern Region Insurance Trust includes 15 cities, 2 counties and one park and recreation district located in the State of Kansas (refer to map on page 13). The total employment figure for all 18 members is not readily available due to overlapping city and county boundaries. Therefore, the percentage of the total employment for all KERIT members cannot be calculated.

Over time, it may be possible to obtain more employment data from the KERIT member cities and counties to calculate the percentage of total employment.

N/A Not Applicable or Not Available

**Kansas Eastern Region Insurance Trust**  
**Selected Payroll Data**  
**For the Ten-Year Period Ended December 31, 2018**

Job Code	Job Classification	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
8810	Clerical	\$25,155,446	\$24,981,017	\$24,593,327	\$27,671,413	\$30,346,631	\$31,613,548	\$36,148,211	\$38,099,082	37,530,951	40,125,896
7720	Police Officers & Drivers	28,287,361	28,268,304	28,020,847	29,290,627	31,851,611	31,580,455	34,323,980	35,655,620	37,364,361	38,474,962
7710/7711	Fire Fighters & Drivers	15,003,824	15,184,630	15,264,259	16,194,811	17,166,671	16,550,096	17,247,654	17,508,354	18,812,230	19,220,517
7539	Electric Light & Power	2,873,877	2,840,949	3,506,001	6,273,304	9,629,025	9,454,619	9,543,929	10,010,092	9,623,178	10,491,596
5506	Streets and Road	7,585,398	7,175,355	7,283,251	7,778,178	8,717,567	8,369,824	8,939,239	9,199,217	9,432,005	9,920,806
9102	Parks, NOC	4,990,906	4,550,782	4,588,997	5,052,392	5,433,894	7,248,133	8,160,374	8,594,815	8,789,063	9,760,937
9410	Municipal County, NOC	7,057,449	6,911,464	6,785,979	7,163,966	7,210,050	7,024,974	7,284,091	7,359,187	7,453,565	8,226,073
7520	Waterworks Operation	2,039,609	1,902,982	2,057,869	2,850,984	3,741,838	3,406,308	3,918,978	3,857,641	4,061,339	4,264,785
9063	Health Institution	1,130,653	1,066,300	1,034,074	1,027,725	1,042,078	3,577,561	3,256,829	3,282,789	3,437,840	3,337,252
9015	Buildings, NOC (Public Swimming Pool)	2,584,784	2,592,974	2,757,248	2,964,589	3,144,051	3,039,261	3,150,970	3,274,675	3,148,033	3,697,100
8869	Child Care	-	-	-	-	-	2,876,383	2,890,142	2,734,712	2,997,990	3,392,266
7580	Sewage	1,739,601	1,774,013	1,779,168	2,005,297	2,512,109	2,230,788	2,702,786	2,695,219	2,734,346	2,906,115
8820	Attorney-All	1,924,930	1,970,774	2,197,115	2,239,292	2,388,444	2,152,941	2,211,834	2,345,556	2,652,039	2,796,485
7370/7705	Ambulance Service	1,197,706	1,250,042	1,229,835	1,382,192	1,717,010	1,841,764	1,753,332	2,106,345	2,899,395	3,275,530
9060	Country Club & Clerical	414,555	364,327	400,533	599,859	746,724	1,498,709	1,530,113	1,611,154	1,636,058	1,653,833
8829	Nursing Home	1,368,241	1,359,390	1,295,552	1,332,057	1,447,311	1,488,815	1,514,514	1,560,464	1,681,108	1,617,072
8380	Auto Service & Repair	826,623	748,912	826,380	1,002,556	1,138,841	997,658	1,110,431	983,145	880,522	818,073
9403	Garbage, Refuse Collection & Drivers	558,774	483,215	504,357	802,126	906,626	948,668	883,283	919,019	936,583	952,477
7502	Gas Companies	464,661	424,441	521,512	803,251	823,270	823,826	849,992	877,032	937,215	798,287
8831	Dog Catcher (Animal Control)	513,376	565,239	631,136	684,567	701,983	685,097	737,790	700,298	792,914	766,129
9220	Cemetery	213,001	138,004	168,945	319,262	396,058	396,674	418,736	443,933	509,557	553,429
7380	Bus Drivers	281,829	299,375	272,399	292,676	290,981	301,497	358,068	438,038	402,145	397,978
8832	Health Dept: Clinic & Clerical	319,670	297,057	318,010	360,672	410,042	425,319	452,787	435,317	635,178	692,429
8742	Sales, Outside (Social Workers)	356,750	380,922	353,392	352,477	462,425	524,341	398,028	425,897	182,574	130,598
7590	Garbage Works (Sanitation Recycling)	341,359	303,809	314,013	315,089	327,294	362,491	436,166	418,869	467,776	530,221
9083	Restaurant, Fast Food	59,446	52,050	40,934	67,149	73,480	84,657	63,262	232,196	108,988	83,325
6319	Water Main Construction	280,723	280,360	329,978	431,579	462,390	146,643	-	194,592	222,642	231,264
9033	Public Housing	321,077	281,080	329,224	158,947	159,004	163,791	168,633	173,732	188,357	200,111
9154/9156	Theater, NOC	1,567	2,033	6,778	21,705	61,197	217,037	207,936	169,567	151,053	168,699
9402	Street Cleaning	101,678	109,068	150,983	268,073	306,062	247,388	269,652	154,572	168,871	131,356
9093	Bowling Lane	-	-	-	34,468	89,811	107,751	111,133	128,561	98,549	88,303
6217	Grading of Land	142,134	143,709	123,321	127,398	127,549	51,104	140,511	122,664	159,539	153,531
5191	Office Appliance	56,967	65,016	71,601	17,980	66,263	67,827	115,864	115,378	118,843	123,130
8601	Architect or Engineer-Consulting	-	-	-	-	114,941	92,289	65,392	65,869	46,166	-
7605	Alarm Installation	-	-	-	-	31,252	33,047	44,417	54,835	59,542	59,288
9016	Recreational Facilities	12,767	29,253	101,820	114,631	193,541	3,311	43,624	37,293	-	-
7423/7403	Aircraft Operations	129,405	107,959	104,059	95,775	129,005	-	-	10,968	39,039	53,373
9101	Public Library & Museum/College	17,049	23,100	22,017	21,804	30,557	7,694	8,011	8,267	9,158	8,836
9178	Athletic Sports or Park	8,699	12,789	16,858	22,322	25,231	39,262	18,208	-	34,988	50,373
3574	Computing/Recording/Office Mach.NOC	-	-	-	63,476	88,222	94,445	-	-	-	-
5645	Carpentry	-	-	-	88,274	16,818	-	-	-	-	-
8835	Home, Public & Traveling Healthcare	-	-	-	-	-	-	-	-	308,957	354,468
8227	Mechanics	-	-	-	-	-	-	-	-	103,616	103,103
9586	Barber Shop or Beauty Parlor	-	-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>\$108,361,895</b>	<b>\$106,940,694</b>	<b>\$108,001,772</b>	<b>\$120,292,943</b>	<b>\$134,527,857</b>	<b>\$140,775,996</b>	<b>\$151,478,900</b>	<b>\$157,004,964</b>	<b>\$161,816,273</b>	<b>\$170,610,006</b>

Note: KERIT uses various rates by job classification to calculate contributions. Contributions are further adjusted for stock (volume), experience modifier and PLUS program discounts, which vary by member.

