

KANSAS EASTERN REGION INSURANCE TRUST

**INDEPENDENT AUDITOR'S REPORT AND
STATUTORY FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statutory financial statements of Kansas Eastern Region Insurance Trust (KERIT), which comprise the statutory statements of admitted assets, liabilities and surplus as of December 31, 2017 and 2016, and the related statutory statements of revenues, expenses and changes in surplus and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the accounting practices prescribed or permitted by the Kansas Insurance Department. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of statutory 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 statutory 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 statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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 statutory financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the statutory financial statements, KERIT prepared these statutory financial statements using accounting practices prescribed or permitted by the Kansas Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, are material as discussed in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the statutory financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of KERIT as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of KERIT as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

BKD, LLP

Kansas City, Missouri
May 10, 2018

Kansas Eastern Region Insurance Trust
Statutory Statements of Admitted Assets, Liabilities and Surplus
December 31, 2017 and 2016

	2017	2016
Admitted Assets		
Cash and cash equivalents	\$ 803,471	\$ 2,192,329
Investments	9,139,578	7,582,012
Accrued interest receivable	31,465	23,198
Contributions receivable	39,400	124,076
Accounts receivable	9,084	-
Reinsurance recoverable on paid claims	152	20,916
	<u>152</u>	<u>20,916</u>
Total admitted assets	<u>\$ 10,023,150</u>	<u>\$ 9,942,531</u>
Liabilities and Surplus		
Liabilities:		
Claim reserves	\$ 3,410,663	\$ 3,630,913
Reserve for unallocated loss adjustment expenses	92,027	97,415
Accrued insurance tax liabilities	198,337	209,750
Accounts payable	22,535	30,278
Advanced contributions	249,177	576,914
Excess contributions	31,959	31,848
	<u>31,959</u>	<u>31,848</u>
Total liabilities	4,004,698	4,577,118
Surplus:		
Members' fund balance - unrestricted	<u>6,018,452</u>	<u>5,365,413</u>
Total liabilities and surplus	<u>\$ 10,023,150</u>	<u>\$ 9,942,531</u>

See Notes to Statutory Financial Statements

Kansas Eastern Region Insurance Trust
Statutory Statements of Revenues, Expenses and Changes in Surplus
For the Years Ended December 31, 2017 and 2016

	2017	2016
Revenues:		
Contributions earned (net of excess insurance premiums of \$367,046 in 2017 and \$354,472 in 2016)	<u>\$ 2,474,632</u>	<u>\$ 2,977,448</u>
Expenses:		
Incurred losses and recoveries	1,337,266	2,064,207
Administrative expenses	424,858	449,275
Insurance taxes	54,414	79,747
Refunds of contributions	<u>357,756</u>	<u>650,119</u>
Total expenses	<u>2,174,294</u>	<u>3,243,348</u>
Underwriting gain (loss)	300,338	(265,900)
Investment income	<u>151,641</u>	<u>130,016</u>
Excess of revenues over (under) expenses	451,979	(135,884)
Change in nonadmitted assets	201,060	(135,953)
Surplus:		
Members' fund balance - beginning of year	<u>5,365,413</u>	<u>5,637,250</u>
Members' fund balance - end of year	<u>\$ 6,018,452</u>	<u>\$ 5,365,413</u>

See Notes to Statutory Financial Statements

Kansas Eastern Region Insurance Trust
Statutory Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Contributions collected, net of excess insurance	\$ 2,417,199	\$ 3,044,489
Net investment income received	168,484	148,353
Losses and loss adjustment expenses paid	(1,536,753)	(1,694,684)
Insurance taxes paid	(65,827)	(80,488)
General and administrative expenses paid	(431,530)	(410,364)
Refunds of contributions paid	(357,756)	(650,119)
	<u>193,817</u>	<u>357,187</u>
Cash flows from investing activities:		
Proceeds from sale or maturity of investments	2,253,974	2,635,931
Cost of investments acquired	(3,836,649)	(1,951,305)
	<u>(1,582,675)</u>	<u>684,626</u>
Net change in cash and cash equivalents	(1,388,858)	1,041,813
Cash and cash equivalents, beginning of year	<u>2,192,329</u>	<u>1,150,516</u>
Cash and cash equivalents, end of year	<u>\$ 803,471</u>	<u>\$ 2,192,329</u>

See Notes to Statutory Financial Statements

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements
For the Years Ended December 31, 2017 and 2016

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 the Trust, located primarily in eastern Kansas, include cities and counties.

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 counties joining the Trust must remain members a minimum of three years; a member may withdraw from the Trust after that time by giving written notice at least ninety days prior to January 1. The Board of Trustees may grant approval to cities and counties applying for membership in the Trust 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. Trust 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 exceeded expenses. The Board of Trustees must specifically authorize refunds of contributions.

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

B. Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with statutory accounting principles prescribed or permitted by the Kansas Insurance Department which vary, in some respects, from generally accepted accounting principles (GAAP). KERIT has adopted the codification principles which provide a comprehensive basis of statutory accounting and reporting and which have been approved by the National Association of Insurance Commissioners (NAIC) and adopted by the Kansas Insurance Department. "Prescribed" statutory accounting practices include state laws, regulations, and general administrative rules, as well as a variety of publications of the NAIC. "Permitted"

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

statutory accounting practices include all accounting practices that are not prescribed, but are allowed by the domiciliary state insurance department. The most significant differences between prescribed statutory accounting practices and GAAP are as follows:

- Investments are valued on a basis prescribed by the NAIC. Under GAAP for governmental entities, investments are carried at fair value and changes in fair values are recognized in the operating statement. The balances under both methods are shown below:

	2017	2016	Increase/ (Decrease)
Investments - NAIC	\$ 9,139,578	\$ 7,582,012	\$ 1,557,566
Investments - GAAP	<u>9,055,260</u>	<u>7,525,608</u>	<u>1,529,652</u>
Difference	<u>\$ 84,318</u>	<u>\$ 56,404</u>	<u>\$ 27,914</u>

- Certain assets designated as “nonadmitted assets” have been charged to members’ fund balance. Under GAAP, those assets would have been reported at the lower of cost or net realizable value. KERIT’s principal nonadmitted assets are prepaid expenses and unbilled supplemental assessments. Nonadmitted assets were as follows:

	2017	2016	Increase/ (Decrease)
Prepaid expenses	\$ 11,153	\$ 8,847	\$ 2,306
Unbilled supplemental assessments	<u>149,156</u>	<u>352,522</u>	<u>(203,366)</u>
Total	<u>\$ 160,309</u>	<u>\$ 361,369</u>	<u>\$ (201,060)</u>

- Comparisons of the results of operations for the fiscal years ended December 31, 2017 and 2016 under the two different sets of accounting principles follow:

	GAAP 2017	NAIC 2017	Difference
Net underwriting/operating gain	\$ 300,338	\$ 300,338	\$ -
Net investment income	123,727	151,641	(27,914)
Change in nonadmitted assets	-	201,060	(201,060)
Members' fund balance, beginning of year	<u>5,670,378</u>	<u>5,365,413</u>	<u>304,965</u>
Members' fund balance, end of year	<u>\$ 6,094,443</u>	<u>\$ 6,018,452</u>	<u>\$ 75,991</u>

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

	GAAP	NAIC	Difference
	2016	2016	
Net underwriting/operating loss	\$ (265,900)	\$ (265,900)	\$ -
Net investment income	89,835	130,016	(40,181)
Change in nonadmitted assets	-	(135,953)	135,953
Members' fund balance, beginning of year	<u>5,846,443</u>	<u>5,637,250</u>	<u>209,193</u>
Members' fund balance, end of year	<u>\$ 5,670,378</u>	<u>\$ 5,365,413</u>	<u>\$ 304,965</u>

Assets, Liabilities and Surplus

Cash and Cash Equivalents – Cash consists of interest bearing accounts at financial institutions. Cash equivalents, those with original maturities of three months or less, consist of money market mutual funds which are redeemable upon demand, pay interest daily, and hold a constant \$1 per share value.

Investments – Investment carrying values have been determined in accordance with the methods prescribed by the NAIC. Bonds are reported at amortized cost, which is calculated using the effective interest method. Investment income is recorded when earned. Realized capital gains and losses are recognized upon the sale of securities using the specific identification method. A decline in a security's net realizable value that is other than temporary is treated as a realized loss in the statement of revenues, expenses and changes in surplus and the cost basis of the security is reduced to its estimated 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 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. The excess insurance recoverables based on paid claims as of December 31, 2017 and 2016 are shown below:

	December 31,	December 31,
	2017	2016
Specific excess insurance recoverable on paid claims	<u>\$ 152</u>	<u>\$ 20,916</u>

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

Claim Reserves – KERIT establishes claim liabilities based on estimates of the ultimate cost: 1) of claims (including future claim adjustment expenses) that have been reported but not settled, and 2) of claims that have been incurred but not reported. Such liabilities are based on complex factors, such as inflation, changes in doctrines of legal liability and damage awards, and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided.

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 claims liabilities are charged or credited to expense in the fiscal year they become known. The claim reserves have been reduced by \$1,475,547 as of December 31, 2017 and by \$579,722 as of December 31, 2016 for the excess insurance recoverable for unpaid claims in the 2001, 2005, 2008 and 2010 claims years, as shown below:

	December 31, 2017	December 31, 2016
Specific excess insurance recoverable on unpaid claims:		
Claim year 2001	\$ 445,300	\$ 445,300
Claim year 2005	631,115	-
Claim year 2008	54,214	-
Claim year 2010	344,918	134,422
	<u>\$ 1,475,547</u>	<u>\$ 579,722</u>

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.

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

Advanced Contributions – Contributions are often collected in advance of the claim year. The contributions are calculated using underwriting criteria for workers' compensation as required by state statute. Advanced contributions represent amounts paid by KERIT members prior to the effective coverage date.

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

Excess 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 contributions received.

Members' Fund Balance – Members' fund balance is maintained on a claim year basis. The membership of any given claim year can change depending upon the governmental entities participating in the KERIT program. As discussed above, KERIT is an assessable pool and members participating in a given claim year will be assessed additional contributions if expenses exceed revenues for such claim year. 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.

The following chart reflects the members' fund balance by claim year as of December 31, 2017. The members' fund balance is the net of the cumulative operating surplus/(deficit), supplemental assessments and refunds of contributions.

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

Claim Year Ended	Cumulative Operating Surplus/ (Deficit)	Supplemental Assessment Collected	Supplemental Assessment Refund Liability	Refunds of Contributions	Members Fund Balance December 31, 2017	Members Fund Balance December 31, 2016	Increase/ (Decrease)
1987-1996	\$ 5,477,391	\$ 266,567	\$ -	\$ (5,746,142)	\$ (2,184)	\$ -	\$ (2,184)
1997	1,735,008	-	-	(1,735,008)	-	-	-
1998	410,265	-	-	(410,265)	-	-	-
1999	631,827	-	-	(631,827)	-	-	-
2000	(294,968)	294,968	-	-	-	(1)	1
2001	(103,501)	135,460	(31,959)	-	-	-	-
2002	395,607	-	-	(378,667)	16,940	19,891	(2,951)
2003	789,598	-	-	(632,026)	157,572	165,576	(8,004)
2004	1,061,593	-	-	(835,892)	225,701	242,086	(16,385)
2005	1,286,931	-	-	(1,051,996)	234,935	326,997	(92,062)
2006	1,345,543	-	-	(800,621)	544,922	582,901	(37,979)
2007	847,334	-	-	(621,527)	225,807	241,113	(15,306)
2008	376,270	-	-	(261,133)	115,137	226,888	(111,751)
2009	877,690	-	-	(432,947)	444,743	481,769	(37,026)
2010	(365,683)	229,923	-	-	(135,760)	(352,522)	216,762
2011	1,106,290	-	-	(369,025)	737,265	774,298	(37,033)
2012	1,563,480	-	-	(539,177)	1,024,303	1,060,718	(36,415)
2013	810,582	-	-	(172,139)	638,443	670,135	(31,692)
2014	654,058	-	-	(24,384)	629,674	403,733	225,941
2015	(11,212)	-	-	-	(11,212)	-	(11,212)
2016	644,898	-	-	-	644,898	521,831	123,067
2017	527,268	-	-	-	527,268	-	527,268
	<u>\$ 19,766,269</u>	<u>\$ 926,918</u>	<u>\$ (31,959)</u>	<u>\$ (14,642,777)</u>	<u>\$ 6,018,452</u>	<u>\$ 5,365,413</u>	<u>\$ 653,039</u>

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

Revenues and 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.

Incurred Losses and Recoveries – Incurred losses and recoveries represent the expense of providing workers' compensation benefits as mandated by state workers' compensation laws and Kansas Insurance Department 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 to the members of excess members' fund balance. 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.

Statement of Cash Flows – For purposes of the statement of cash flows, cash, cash equivalents and short-term investments includes deposit accounts. There were no noncash capital or financing activities during fiscal years ending December 31, 2017 and 2016.

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 \$41,519 and \$40,442 in fiscal years 2017 and 2016, respectively. There are no acquisition costs capitalized in the accompanying financial statements.

Use of Estimates – The preparation of financial statements in conformity with NAIC statutory accounting practices 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.

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

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 before 2010, KERIT has purchased specific (per occurrence) and aggregate excess insurance coverage. Beginning with claim year 2010, aggregate excess insurance was dropped from the policy. The following chart reflects the self-insured retention amounts and the excess insurance limits:

	Claim Year				
	2008	2009	2010	2011	2012
Self-insured retention:					
Specific reinsurance	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 450,000
Aggregate reinsurance	3,096,282	3,161,107	-	-	-
Limits:					
Specific reinsurance	Statutory	Statutory	Statutory	Statutory	Statutory
Aggregate reinsurance	5,000,000	5,000,000	-	-	-
Loss fund revenues (Note 1)	1,836,440	1,719,281	1,922,792	1,624,538	1,876,274
Estimated incurred claims and expenses	1,665,316	1,088,370	2,205,794	778,969	627,646
	2013	2014	2015	2016	2017
Self-insured retention:					
Specific reinsurance	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Aggregate reinsurance	-	-	-	-	-
Limits:					
Specific reinsurance	Statutory	Statutory	Statutory	Statutory	Statutory
Aggregate reinsurance	-	-	-	-	-
Loss fund revenues (Note 1)	2,154,858	2,037,184	2,245,684	2,215,312	2,099,331
Estimated incurred claims and expenses	1,647,540	1,599,707	2,395,141	1,669,028	1,736,745

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

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

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:

	2017	2016
Claim reserves at beginning of year, net of recoveries	<u>\$ 3,630,913</u>	<u>\$ 3,282,245</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	1,737,589	1,812,472
Increase (decrease) in provision for insured events of prior years	<u>(400,323)</u>	<u>251,735</u>
Total incurred claims and claim adjustment expenses	<u>1,337,266</u>	<u>2,064,207</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	473,674	588,662
Claims and claim adjustment expenses attributable to insured events of prior years	<u>1,083,842</u>	<u>1,126,877</u>
Total payments, net of recoveries	<u>1,557,516</u>	<u>1,715,539</u>
Claim reserves at end of year, net of recoveries	<u><u>\$ 3,410,663</u></u>	<u><u>\$ 3,630,913</u></u>

As a result of changes in estimates and unfavorable and favorable development for insured events of prior years, the provision for unpaid claims and claim adjustment decreased by \$400,323 in 2017, and increased by \$251,735 in 2016.

4. Cash and Cash Equivalents

KERIT maintains various deposit accounts to handle the cash receipts, disbursements and idle cash balance. Uninsured balances of approximately \$597,000 as of December 31, 2017 and \$1,665,000 as of December 31, 2016 are collateralized with securities held by the pledging financial institution's trust department. KERIT has an arrangement with the bank to automatically transfer funds on a daily basis from the short-term investments account to the two checking accounts as checks are processed and posted to the checking accounts.

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

December 31, 2017	Carrying Value
Cash (outstanding checks)	\$ (43,552)
Cash equivalents	<u>847,024</u>
Total cash and cash equivalents	<u>\$ 803,471</u>
December 31, 2016	Carrying Value
Cash	\$ 277,380
Cash equivalents	<u>1,914,949</u>
Total cash and cash equivalents	<u>\$ 2,192,329</u>

5. Investments

KERIT's trust agreement and bylaws contain no provision regarding deposits or the type of investments that may be purchased. 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'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.

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

KERIT's investments are solely in U.S. government agency bonds and certificate of deposits, which are not considered to have credit risk. Fair values of investments are generally based on quotes supported by an independent pricing service. Investment balances at December 31, 2017 and 2016 are as follows:

	Carrying Value	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2017				
U.S. Government sponsored agency obligations	\$ 7,959,578	\$ -	\$ (84,318)	\$ 7,875,260
Certificate of deposits	1,180,000	-	-	1,180,000
Total	<u>\$ 9,139,578</u>	<u>\$ -</u>	<u>\$ (84,318)</u>	<u>\$ 9,055,260</u>

	Carrying Value	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2016				
U.S. Government sponsored agency obligations	\$ 7,092,012	\$ 9,054	\$ (65,458)	\$ 7,035,608
Certificate of deposits	490,000	-	-	490,000
Total	<u>\$ 7,582,012</u>	<u>\$ 9,054</u>	<u>\$ (65,458)</u>	<u>\$ 7,525,608</u>

Certain investments in the statutory financial statements have a fair value less than their cost. Total fair value of these investments at December 31, 2017 was \$7,875,260, which is approximately 79% of KERIT's cash and invested assets at December 31, 2017. These declines primarily resulted from market fluctuations and changes in interest rates. As of December 31, 2016, securities totaling \$5,936,702 were in a loss position.

Based on evaluation of available evidence, including recent changes in market conditions, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. During 2017 and 2016, there were no investments where the impairment was considered other than temporary.

The following tables show KERIT's investments' gross unrealized losses and fair value, aggregated by length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016:

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

December 31, 2017						
Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds						
U.S. Government sponsored agency obligations	\$ 3,006,144	\$ (32,593)	\$ 4,869,116	\$ (51,725)	\$ 7,875,260	\$ (84,318)
December 31, 2016						
Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds						
U.S. Government sponsored agency obligations	\$ 2,036,828	\$ (42,500)	\$ 3,899,874	\$ (22,958)	\$ 5,936,702	\$ (65,458)

The carrying value and fair value of bonds at December 31, 2017, by contractual maturity, is as follows. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or repay obligations with or without call or prepayment penalties.

	Carrying Value	Fair Value
Years to maturity		
One or less	\$ 1,592,253	\$ 1,587,261
After one through five	5,713,587	5,653,658
After five through ten	1,412,420	1,398,362
Due after ten years	421,318	415,979
Total investments	\$ 9,139,578	\$ 9,055,260

Proceeds from sales and maturities of investments during 2017 and 2016 were \$2,253,974 and \$2,635,931, respectively. Gross losses of \$41,291 and \$8,995 were realized in 2017 and 2016, respectively.

6. Fair Values of Financial Instruments

Financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds when carried at the lower of cost or market.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, KERIT estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

KERIT's financial assets and liabilities carried at fair value have been classified for disclosure purposes, based on a hierarchy defined by SSAP 100, *Fair Value Measurements*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a 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 (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- Level 1** Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- Level 2** Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- Level 3** Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect KERIT's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The carrying amounts and fair values of KERIT's financial instruments at December 31 are as follows:

	2017				
	Admitted Value	Fair Value	Level 1	Level 2	Level 3
Financial Instruments - Assets					
U.S. Government sponsored agency obligations	\$ 7,959,578	\$ 7,875,260	\$ -	\$ 7,875,260	\$ -
Cash and cash equivalents	803,471	803,471	803,471	-	-
Certificate of deposits	1,180,000	1,180,000	1,180,000	-	-
Total financial instruments - assets	<u>\$ 9,943,049</u>	<u>\$ 9,858,731</u>	<u>\$ 1,983,471</u>	<u>\$ 7,875,260</u>	<u>\$ -</u>

Kansas Eastern Region Insurance Trust
Notes to Statutory Financial Statements, Continued
For the Years Ended December 31, 2017 and 2016

	Admitted Value	Fair Value	2016		
			Level 1	Level 2	Level 3
Financial Instruments - Assets					
U.S. Government sponsored agency obligations	\$ 7,092,012	\$ 7,035,608	\$ -	\$ 7,035,608	\$ -
Cash and cash equivalents	2,192,329	2,192,329	2,192,329	-	-
Certificate of deposits	490,000	490,000	490,000	-	-
Total financial instruments - assets	<u>\$ 9,774,341</u>	<u>\$ 9,717,937</u>	<u>\$ 2,682,329</u>	<u>\$ 7,035,608</u>	<u>\$ -</u>

7. 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 a service fee. For fiscal years 2017 and 2016, these fees totaled \$282,818 and \$272,978, respectively.

8. Structured Settlements

In 2004, KERIT entered into a structured settlement with Medicare to cover future medical costs for a claim. As part of the settlement, KERIT purchased an annuity to cover costs up to \$77,047. The present value of the annuity is \$38,628. 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.

Life Insurance Company and Location	Licensed in KERIT's State of Domicile?	Statement Value (i.e. Present Value) of Annuity
Liberty Life Assurance Company of Boston Boston, MA	No	\$ 38,628

9. 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 or 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.

10. Subsequent Events

Subsequent events have been evaluated through May 10, 2018, which is the date the statutory financial statements were available to be issued.

Independent Auditor's Report on Supplementary Information

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

Our 2017 audit was conducted for the purpose of forming an opinion on the 2017 basic statutory financial statements as a whole. The statutory financial statements were prepared on the basis of accounting practices prescribed or permitted by the Kansas Insurance Department. The accompanying supplemental schedules as of and for the year ended December 31, 2017, as listed in the table of contents, are presented for the purpose of complying with the National Association of Insurance Commissioners' *Instructions to Annual Audited Financial Reports* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are presented for purposes of additional analysis and are not a required part of the 2017 basic statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 basic statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2017 basic statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2017 basic statutory financial statements as a whole.

BKD, LLP

Kansas City, Missouri
May 10, 2018

Kansas Eastern Region Insurance Trust
Investment Risks Interrogatories
December 31, 2017

1. The Trust's total admitted assets as reported on the Statutory Statements of Admitted Assets, Liabilities and Surplus at December 31, 2017 was \$10,023,150.
2. Following are the largest exposures to a single issuer/borrower/investment:

Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
Capital One	Certificate of Deposit	\$ 490,000	4.89%
Barclays	Certificate of Deposit	\$ 245,000	2.44%
Goldman Sachs Bank USA	Certificate of Deposit	\$ 245,000	2.44%
Wells Fargo	Certificate of Deposit	\$ 200,000	2.00%

3. KERIT's total admitted assets held in bonds by NAIC rating at December 31, 2017 are as follows:

Bonds			Preferred Stocks		
NAIC Rating	Amount	Percentage of Total Admitted Assets	NAIC Rating	Amount	Percentage of Total Admitted Assets
NAIC – 1	\$ 9,139,578	91.2%	P/PSF – 1	\$	%
NAIC – 2			P/PSF – 2		
NAIC – 3			P/PSF – 3		
NAIC – 4			P/PSF – 4		
NAIC – 5			P/PSF – 5		
NAIC – 6			P/PSF – 6		
	<u>\$ 9,139,578</u>	<u>91.2%</u>		<u>\$</u>	<u>%</u>

Kansas Eastern Region Insurance Trust
Investment Risks Interrogatories (Continued)
December 31, 2017

- 4.-11. The Trust did not have foreign investment exposure at December 31, 2017.
- 12. The Trust did not hold any investments with contractual sales restrictions at December 31, 2017.
- 13. The Trust did not hold equity interests at December 31, 2017.
- 14. The Trust did not hold any investments in nonaffiliated, privately placed equities at December 31, 2017.
- 15. The Trust did not hold any investments in general partnership interests at December 31, 2017.
- 16.-17. The Trust did not hold any investments in mortgage loan interests at December 31, 2017.
- 18. The Trust did not hold any investments in real estate at December 31, 2017.
- 19. The Trust did not have any potential exposure for investments in mezzanine real estate loans during 2017.
- 20. The Trust's admitted assets were not subject to any security lending agreements, repurchase agreements, reverse repurchase agreements, dollar repurchase agreements or dollar reverse repurchase agreements during 2017.
- 21. The Trust did not own any warrants not attached to other financial instruments, options, caps and floors at December 31, 2017.
- 22. The Trust did not have any potential exposure for collars, swaps and forwards during 2017.
- 23. The Trust did not have any potential exposure for futures contracts during 2017.

Kansas Eastern Region Insurance Trust
Summary Investment Schedule
December 31, 2017

Investment Categories	Gross Investment Holdings *		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col 3+4) Amount	Percentage
Bonds						
U.S. Treasury securities	\$ -		\$ -	\$ -	\$ -	
U.S. Government agency and corporate obligations (excluding mortgage-backed securities)	-		-	-	-	
Issued by U.S. Government agencies	-		-	-	-	
Issued by U.S. Government-sponsored agencies	7,959,578	80.1%	7,959,578	-	7,959,578	80.1%
Foreign Government (including Canada, excluding mortgage-backed securities)	-		-	-	-	
Securities issued by states, territories and possessions and political subdivisions in the U.S.	-		-	-	-	
State, territory and possession – general obligations	-		-	-	-	
Political subdivisions of states, territories and possessions, political subdivisions – general obligations	-		-	-	-	
Revenue and assessment obligations	-		-	-	-	
Industrial development and similar obligations	-		-	-	-	
Mortgage-backed securities (includes residential and commercial MBS)	-		-	-	-	
Pass-through securities	-		-	-	-	
Guaranteed by GNMA	-		-	-	-	
Issued by FNMA and FHLMC	-		-	-	-	
Privately issued	-		-	-	-	
CMOs and REMICs:	-		-	-	-	
Issued by FNMA and FHLMC	-		-	-	-	
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, FHLMC	-		-	-	-	
All other privately issued	-		-	-	-	
Other debt and other fixed income securities (excluding short-term)	-		-	-	-	
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	1,180,000	11.9%	1,180,000	-	1,180,000	11.9%
Unaffiliated foreign securities	-		-	-	-	
Affiliated securities	-		-	-	-	
Equity Interests						
Investments in mutual funds	-		-	-	-	
Preferred stocks	-		-	-	-	
Affiliated	-		-	-	-	
Unaffiliated	-		-	-	-	
Publicly traded equity securities (excluding preferred stocks):	-		-	-	-	
Affiliated	-		-	-	-	
Unaffiliated	-		-	-	-	

Kansas Eastern Region Insurance Trust
Summary Investment Schedule (Continued)
December 31, 2017

Investment Categories	Gross Investment Holdings *		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col 3+4) Amount	6 Percentage
Other equity securities						
Affiliated	\$ -		\$ -	\$ -	\$ -	
Unaffiliated	-		-	-	-	
Other equity interests including tangible personal property under lease:						
Affiliated	-		-	-	-	
Unaffiliated	-		-	-	-	
Mortgage Loans						
Construction and land development	-		-	-	-	
Agricultural	-		-	-	-	
Single family residential properties	-		-	-	-	
Multifamily residential properties	-		-	-	-	
Commercial loans	-		-	-	-	
Real Estate Investments						
Property occupied by Company	-		-	-	-	
Property held for production of income	-		-	-	-	
Property held for sale	-		-	-	-	
Collateral Loans	-		-	-	-	
Policy Loans	-		-	-	-	
Receivables for Securities	-		-	-	-	
Cash and Cash Equivalents	803,471	8.1%	803,471	-	803,471	8.1%
Other Invested Assets	-		-	-	-	
	<u>\$ 9,943,049</u>	<u>100%</u>	<u>\$ 9,943,049</u>	<u>\$ -</u>	<u>\$ 9,943,049</u>	<u>100%</u>

* Gross investment holdings as valued in compliance with the *NAIC Instructions*.

Kansas Eastern Region Insurance Trust
Schedule of Reinsurance Disclosures
December 31, 2017

1. Has the reporting entity reinsured any risk with any other entity under quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes () No (X)

2. If yes, indicate the number of reinsurance contracts containing such provisions.
 _____ Yes () No ()

3. If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes () No ()

4. Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes () No (X)

5. If yes, give full information. _____

6. Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
 - (a) A contract term longer than two years and the contract is noncancelable by the reporting entity during the contract term;
 - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - (c) Aggregate stop loss reinsurance coverage;
 - (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

Kansas Eastern Region Insurance Trust
Schedule of Reinsurance Disclosures (Continued)
December 31, 2017

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes () No (X)

7. Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statements; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in separate reinsurance contract. Yes () No (X)

8. If yes to 6 or 7, please provide the following information:

(a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income.

Financial Impact			
	(1) As Reported	(2) Reinsurance Effect	(3) Restated Without Reinsurance
A01. Assets			
A02. Liabilities			
A03. Surplus as regards to policyholders			
A04. Net income			

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives

Kansas Eastern Region Insurance Trust
Schedule of Reinsurance Disclosures (Continued)
December 31, 2017

- (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 6 or 7;
 - (c) A brief discussion of management's principal objectives entering into the reinsurance contract including the economic purpose to be achieved; and
9. Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
 - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?
- Yes () No (X)
10. If yes to 9, explain why the contract(s) is treated differently for GAAP and SAP. _____