

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES  
DECEMBER 31, 2012 AND 2011

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS - STATUTORY-BASIS	
STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND MEMBERS' FUND BALANCES	3
STATEMENTS OF INCOME (LOSS)	4
STATEMENTS OF CHANGES IN MEMBERS' FUND BALANCES	5
NOTES TO FINANCIAL STATEMENTS	6



Certified Public Accountants  
and Management Consultants

Brian J. Florea, CPA  
Derek H. Hart, CPA  
John R. Helms, CPA  
Darrell D. Loyd, CPA  
Eric L. Otting, CPA

Jere Noe, CPA  
John E. Wendling, CPA  
Barry W. Boyles, CPA  
Adam C. Crouch, CPA  
Heather R. Eichem, CPA  
Aaron L. Kuehn, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Kansas Workers Risk Cooperative for Counties

We have audited the accompanying financial statements of Kansas Workers Risk Cooperative for Counties, which comprise the statutory statements of admitted assets, liabilities, and members' fund balances as of December 31, 2012 and 2011, and the related statutory statements of income (loss) and statutory changes in members' fund balances for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting principles as prescribed or permitted by the Department of Insurance of the State of Kansas. Management is also responsible for 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 audits 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 admitted assets, liabilities, and members' fund balances of Kansas Workers Risk Cooperative for Counties as of December 31, 2012 and 2011, and the results of its operations for the years then ended, in accordance with the financial reporting provisions of the Department of Insurance of the State of Kansas as described in Note A2.

*Basis of Accounting*

We draw attention to Note A2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of the Department of Insurance of the State of Kansas, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Department of Insurance of the State of Kansas. Our opinion is not modified with respect to that matter.

*Wendling Roe Nelson & Johnson LLP*

Topeka, Kansas  
April 10, 2013

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES  
 STATUTORY STATEMENTS OF ADMITTED ASSETS,  
 LIABILITIES, AND MEMBERS' FUND BALANCES  
 December 31,

ASSETS

	<u>2012</u>	<u>2011</u>
CASH AND INVESTED ASSETS		
Bonds	\$ 15,796,833	\$ 15,693,627
Mutual funds	2,112,931	1,841,730
Cash and short-term investments	<u>1,071,197</u>	<u>1,237,090</u>
	<u>18,980,961</u>	<u>18,772,447</u>
OTHER ADMITTED ASSETS		
Interest due and accrued	76,163	87,762
Premiums receivable	463,366	357,441
Receivable from excess insurance	202,572	39,323
Other	<u>78</u>	<u>8,124</u>
	<u>742,179</u>	<u>492,650</u>
Total assets	<u>\$ 19,723,140</u>	<u>\$ 19,265,097</u>

LIABILITIES AND MEMBERS' FUND BALANCES

LIABILITIES

Estimated losses and loss adjustments expense reserve	\$ 7,181,365	\$ 6,921,212
Premium refunds payable	151,117	170,523
Taxes, licenses, and fees payable	280,146	278,657
Accounts payable	9,277	4,954
Other accrued expenses	<u>79,400</u>	<u>73,546</u>
Total liabilities	<u>7,701,305</u>	<u>7,448,892</u>

MEMBERS' FUND BALANCES

Unrestricted		
Member protection fund	1,796,188	1,797,621
Fund balance reserve	<u>10,225,647</u>	<u>10,018,584</u>
Total fund balances	<u>12,021,835</u>	<u>11,816,205</u>
Total liabilities and fund balances	<u>\$ 19,723,140</u>	<u>\$ 19,265,097</u>

The accompanying notes are an integral part of these statements.

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES  
 STATUTORY STATEMENTS OF INCOME (LOSS)  
 Year ended December 31,

	<u>2012</u>	<u>2011</u>
UNDERWRITING INCOME		
Premiums earned	\$ 5,335,274	\$ 5,760,165
Deductions		
Losses and allocated loss adjustment expenses	4,050,761	3,736,956
Claims administration expense	190,000	190,000
Workers' compensation taxes	134,529	337,060
Administration	844,526	797,319
Excess insurance premiums	456,147	422,831
	<u>5,675,963</u>	<u>5,484,166</u>
Net underwriting income (loss)	(340,689)	275,999
INVESTMENT INCOME	<u>296,643</u>	<u>372,615</u>
Net income (loss)	<u>\$ (44,046)</u>	<u>\$ 648,614</u>

The accompanying notes are an integral part of these statements.

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES  
 STATUTORY STATEMENTS OF CHANGES IN MEMBERS' FUND BALANCES  
 Year ended December 31,

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	<u>\$ 11,816,205</u>	<u>\$ 11,332,283</u>
Net income (loss)	(44,046)	648,614
Change in net unrealized gains (losses)	<u>249,676</u>	<u>(164,692)</u>
Change in members' fund balances	<u>205,630</u>	<u>483,922</u>
Balance at end of year	<u><u>\$ 12,021,835</u></u>	<u><u>\$ 11,816,205</u></u>

The accompanying notes are an integral part of these statements.

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization

Kansas Workers Risk Cooperative for Counties (the Cooperative) was organized under a certificate of authority from the State of Kansas Insurance Department on December 31, 1991. The certificate states that the Cooperative has complied with all the requirements of K.S.A. 12-2616, et seq., as amended, and is authorized to pool liabilities for Workers' Compensation and Employer's Liability pursuant to the Kansas Municipal Group-Funded Pool Act within the State of Kansas.

The Cooperative has adopted Bylaws and Interlocal Cooperation Agreement as amended on the 15th day of November 2010, under the authority of the Kansas Municipal Group-Funded Pool Act, K.S.A. 12-2616, et seq., as amended, the Interlocal Cooperation Act, K.S.A. 12-2901, et seq., as amended, and the Kansas Tort Claims Act, K.S.A. 75-6101, et seq., as amended.

The purpose of the Cooperative is to maintain a Kansas county government group-funded cooperative to fund through joint self-insurance, excess insurance, or other lawful manner, obligations imposed upon employers under the Workers Compensation Act as set forth by K.S.A. 44-574, and any of the acts contained in article 5 or 5a of Chapter 44 of the Kansas Statutes Annotated and amendments thereto, and to do any act authorized by the law, as determined by the Board of Trustees, with the powers set forth in the ByLaws and Interlocal Cooperation Agreement.

Membership in the Cooperative is limited to Kansas county entities which enter into the Cooperative Agreement and which meet qualifying standards as established by the Board of Trustees.

The accounts of the Cooperative 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. The Cooperative 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 the Cooperative's activities are provided to outside parties, the local governmental members of the Cooperative.

2. Basis of presentation

The Cooperative prepares its financial statements in accordance with Statutory Accounting Principles prescribed or permitted by the Department of Insurance of the State of Kansas (the Department). The Department has adopted as a component of prescribed or permitted practices the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual, without modification. These principles and practices differ from accounting principles generally accepted in the United States of America.

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

The variances between statutory accounting practices and generally accepted accounting principles are: costs attributable to obtaining business are charged to operations as incurred rather than deferred and charged to operations in proportion to the recognition of premium revenues; carrying value of bonds is generally at cost or amortized cost rather than at market; subrogation recoverable is not recognized until received; unpaid loss reserves are based on estimated liabilities without consideration of present value; and certain assets designated as "nonadmitted" are charged directly to members' fund balance. The effect of such variances on the accompanying financial statements has not been determined.

3. Use of estimates

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amount of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

4. Invested assets

Bonds are stated at amortized cost using the scientific method to amortize premiums and discounts. Mutual funds are carried at fair market value.

5. Premiums earned

Premium income is recognized on a pro rata basis over the periods covered by the policies. Adjustments to premiums based on payroll audits are estimated and reported in current operations. The difference between recorded estimates and actual payroll audit results is reported in current operations when known.

6. Investment income

Due and accrued income is excluded from investment income when collection is uncertain. No amounts are excluded as of December 31, 2012 and 2011, respectively.

7. Unpaid losses and loss adjustment expenses

The Cooperative establishes reserves for unpaid losses and loss adjustment expenses based on estimates of the ultimate cost of claims (including future allocated loss adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Because actual claims costs depend on such complex factors as inflation, healing progress of individual claimants, changes in doctrines of legal liability, and disability ratings and 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

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Unpaid loss liabilities are not discounted to their estimated present value. Adjustments to unpaid loss liabilities are reported in current operations.

The Cooperative's claim service agency is responsible for determination and adjustment of case basis reserves. While management believes that an adequate provision for loss and allocated loss adjustment expense has been made in the financial statements, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

8. Members' fund balances

Members' fund balances are maintained on a claim year basis. The membership for any given claim year can change depending upon the governmental entities participating in the Cooperative. The Cooperative is an assessable fund in which the members participating in a given claim year may be assessed additional premium. Yet such an assessment may only occur if losses and expenses exceed funds available for that fund year, if there are no funds available from the member protection fund, if in the judgment of the Board of Trustees there are no funds available from other fund years or the investment account to cover the deficit fund year, and if excess insurance policies do not cover the claims. No assessments for additional premiums have been made since inception. Management does not anticipate that assessments will be required for any of the remaining open claim years which are 2000 through 2012. In order to protect member counties against assessment, the Board has established a member protection fund, which has a current balance of \$1,796,188. In the event a claim year's funds are insufficient to cover losses and expenses, the member protection fund will pay losses and expenses for that year. The Cooperative may declare a distribution of investment income and/or a refund of premium to members.

Members' fund balances consist of the following at December 31, 2012:

Unrestricted	
Member protection fund	\$ 1,796,188
Fund balance reserve	<u>10,225,647</u>
Members' fund balances	<u>\$ 12,021,835</u>

9. Income taxes

The Cooperative is a local government entity and as such is not subject to federal or state income taxes. State premium taxes are included in administration expenses.

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE B - INVESTED ASSETS

The amortized costs, gross unrealized gains, gross unrealized losses, and estimated fair market values of bonds are as follows:

	<u>Carrying value</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Market value</u>
December 31, 2012				
U.S. Government agency bonds	\$ 13,802,146	\$ 138,520	\$ (33,349)	\$ 13,907,317
U.S. Government treasury notes	<u>1,994,687</u>	<u>                    </u>	<u>(937)</u>	<u>1,993,750</u>
Total bonds	<u>\$ 15,796,833</u>	<u>\$ 138,520</u>	<u>\$ (34,286)</u>	<u>\$ 15,901,067</u>
December 31, 2011				
U.S. Government agency bonds	\$ 13,238,306	\$ 76,130	\$ (21,853)	\$ 13,292,583
U.S. Government treasury notes	2,008,573	724		2,009,297
State municipal bonds	<u>446,748</u>	<u>13,978</u>	<u>                    </u>	<u>460,726</u>
Total bonds	<u>\$ 15,693,627</u>	<u>\$ 90,832</u>	<u>\$ (21,853)</u>	<u>\$ 15,762,606</u>

The carrying values and estimated fair values of bonds at December 31, 2012, by contractual maturity, are shown below:

	<u>Carrying value</u>	<u>Market value</u>
Due in one year or less	\$ 250,654	\$ 251,655
Due after one year through five years	4,297,789	4,305,540
Due after five years through ten years	9,328,390	9,448,401
Due after ten years	<u>1,920,000</u>	<u>1,895,471</u>
	<u>\$ 15,796,833</u>	<u>\$ 15,901,067</u>

Mutual funds consist of the following funds:

<u>Fund</u>	<u>Cost</u>	<u>Unrealized gain (loss)</u>	<u>Market value</u>
December 31, 2012			
Money market funds	\$ 31,948	\$ -	\$ 31,948
Cash	3,074		3,074
Corporate bond mutual funds	178,002		178,002
Equity mutual funds	1,144,302	161,449	1,305,751
Equity international mutual funds	487,593	(37,682)	449,911
Other mutual funds	<u>147,090</u>	<u>(2,845)</u>	<u>144,245</u>
	<u>\$ 1,992,009</u>	<u>\$ 120,922</u>	<u>\$ 2,112,931</u>

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE B - INVESTED ASSETS - Continued

<u>Fund</u>	<u>Cost</u>	<u>Unrealized gain (loss)</u>	<u>Market value</u>
December 31, 2011			
Money market funds	\$ 381,407	\$ -	\$ 381,407
Cash	5,947		5,947
Equity mutual funds	965,591	(7,939)	957,652
Equity international mutual funds	492,291	(108,032)	384,259
Other mutual funds	<u>125,249</u>	<u>(12,784)</u>	<u>112,465</u>
	<u>\$ 1,970,485</u>	<u>\$ (128,755)</u>	<u>\$ 1,841,730</u>

Investment income earned on invested assets was as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 275,315	\$ 353,113
Realized gains (losses) on invested assets including dividend distributions from mutual fund holdings	50,714	48,671
Investment account fees	<u>(29,386)</u>	<u>(29,169)</u>
	<u>\$ 296,643</u>	<u>\$ 372,615</u>

All bonds and mutual funds were in the possession of the Cooperative's agents, Country Club Bank, and GTrust Financial Partners, respectively. Investments are limited to specific types, terms and, otherwise, as set forth in Kansas statutes and in accordance with the Cooperative's investment policy.

NOTE C - CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consist of the following at December 31, 2012:

Cash on deposit with banks	\$ 137,404
Repurchase agreements collateralized by U.S. Treasury or government agency securities	<u>933,793</u>
	<u>\$ 1,071,197</u>

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE D - ESTIMATED LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	<u>2012</u>	<u>2011</u>
Gross balance at January 1	\$ 6,921,212	\$ 6,814,812
Less estimated reinsurance recoveries	<u>(39,323)</u>	<u>(85,748)</u>
Net balance at January 1	<u>6,881,889</u>	<u>6,729,064</u>
Incurred related to		
Current year	3,700,000	3,300,000
Prior years	<u>350,761</u>	<u>436,956</u>
Total incurred	<u>4,050,761</u>	<u>3,736,956</u>
Paid related to		
Current year	1,218,001	1,052,660
Prior years	<u>2,735,856</u>	<u>2,531,471</u>
Total paid	<u>3,953,857</u>	<u>3,584,131</u>
Balance at end of year	6,978,793	6,881,889
Plus estimated reinsurance recoverable	<u>202,572</u>	<u>39,323</u>
Gross balance at December 31	<u>\$ 7,181,365</u>	<u>\$ 6,921,212</u>

The estimated liability for losses and loss adjustment expenses consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Specific claim reserves	\$ 4,064,603	\$ 4,003,402
IBNR reserves	<u>3,116,762</u>	<u>2,917,810</u>
Total incurred	<u>\$ 7,181,365</u>	<u>\$ 6,921,212</u>

As a result of changes in estimates of insured events in prior years, the provision of losses and loss adjustment expenses increased by \$350,761 and \$436,956 in 2012 and 2011, respectively.

NOTE E - RELATED PARTY TRANSACTIONS

Each year the Cooperative enters into a full service lease with Parrish Management Corporation. This agreement includes rent for furnished office space, personnel services and expense reimbursement. Personnel services entail security, janitorial, payroll, receptionist, clerical, information technology and website, newsletter and media development. The expense reimbursement is for fax, photocopier and other out-of-pocket expenses

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 December 31, 2012 and 2011

NOTE E - RELATED PARTY TRANSACTIONS - Continued

attributable to KWORCC. Parrish Management Corporation is owned by James W. Parrish who is the Administrator of Kansas Workers Risk Cooperative for Counties. The Cooperative paid \$25,284 and \$25,085 for office rent during 2012 and 2011, respectively. Also during 2012 and 2011, the Cooperative paid \$77,905 and \$73,175 for support services and other expenses, respectively.

NOTE F - SELF-INSURED RETENTION AND EXCESS INSURANCE

The Cooperative uses specific and aggregate excess insurance agreements with an A. M. Best A rated Company to reduce its exposure to large losses. Such contracts permit recovery of a portion of losses from the reinsurer. A contingent liability exists in the event that the reinsurer is unable to meet its obligations under the contract.

The Cooperative retention limits, specific excess and aggregate excess for all open claim years are as follows:

<u>Accident year</u>	<u>Specific excess</u>		<u>Aggregate excess</u>
	<u>Self-insured retention</u>	<u>Limit</u>	<u>Self-insured retention</u>
2000	200,000	Statutory	2,433,419
2001	200,000	Statutory	2,875,000
2002	350,000	Statutory	3,230,458
2003	350,000	Statutory	5,260,730
2004	400,000	Statutory	6,341,050
2005	400,000	Statutory	6,315,353
2006	600,000	Statutory	5,901,796
2007	600,000	Statutory	6,759,055
2008	600,000	Statutory	6,604,413
2009	600,000	Statutory	6,643,430
2010	600,000	Statutory	6,746,036
2011	600,000	Statutory	6,084,089
2012	600,000	Statutory	6,537,094

The Cooperative only pools risk from member counties and county entities located in the state of Kansas. The effects of this potential concentration of risk is taken into consideration in setting self-insured, specific excess, and aggregate excess retention and limits.

NOTE G - RETIREMENT PLAN

1. Plan description

The Cooperative participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE G - RETIREMENT PLAN - Continued

2. Funding policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 percent of covered salary for employees first employed on or before July 1, 2009. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6 percent of covered salary for employees first employed on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate funded by the Cooperative in calendar years 2012 and 2011 was 8.53 percent and 7.92 percent, respectively. The Cooperative employer contributions to KPERS totaled \$28,925 and \$24,025 for the calendar years ended December 31, 2012 and 2011, respectively.

NOTE H - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on a hierarchy that gives highest priority to use of observable inputs and lowest priority to use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

Level 1 - inputs are unadjusted quoted prices for identical assets in active markets that an organization has the ability to access.

Level 2 - inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - inputs are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

Fair value measurement is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used by the Cooperative for assets measured at fair value on a recurring basis.

Money market accounts, equity mutual funds, debt mutual funds, and common stocks are valued at unadjusted quoted prices for identical securities in active markets.

U.S. Government agency obligations, U.S. Government treasury notes, and taxable municipal bonds are valued at prices provided by independent pricing services.

KANSAS WORKERS RISK COOPERATIVE FOR COUNTIES  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 December 31, 2012 and 2011

NOTE H - FAIR VALUE MEASUREMENTS - Continued

The following tables set forth, by level, the Cooperative's assets measured at fair value on a recurring basis.

	December 31, 2012			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government agency bonds	\$ -	\$ 13,907,317	\$ -	\$ 13,907,317
U.S. Government treasury notes		1,993,750		1,993,750
Mutual funds	<u>2,112,931</u>			<u>2,112,931</u>
Total investments	<u>\$ 2,112,931</u>	<u>\$ 15,901,067</u>	<u>\$ -</u>	<u>\$ 18,013,998</u>

	December 31, 2011			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government agency bonds	\$ -	\$ 13,292,583	\$ -	\$ 13,292,583
U.S. Government treasury notes		2,009,297		2,009,297
State municipal bonds		460,726		460,726
Mutual funds	<u>1,841,730</u>			<u>1,841,730</u>
Total investments	<u>\$ 1,841,730</u>	<u>\$ 15,762,606</u>	<u>\$ -</u>	<u>\$ 17,604,336</u>

NOTE I - SUBSEQUENT EVENTS

The Cooperative has evaluated all subsequent events through the date of the independent accountants' report, which is the date the financial statements were available to be issued.