

**MIDWEST PUBLIC RISK  
OF KANSAS, INC.**

**STATUTORY FINANCIAL STATEMENTS  
For the Years Ended June 30, 2012 and 2011**

**Midwest Public Risk of Kansas, Inc.**

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## Report of Independent Auditors

To the Board of Directors and Members  
Midwest Public Risk of Kansas, Inc.:

We have audited the accompanying statutory statement of admitted assets, liabilities and surplus of Midwest Public Risk of Kansas, Inc. (MPR of Kansas) as of June 30, 2012 and 2011, and the related statutory statements of revenues, expenses and changes in surplus and cash flows for the years then ended. These financial statements are the responsibility of MPR of Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 2 to the financial statements, MPR of Kansas prepared these financial statements using accounting principles prescribed or permitted by the Insurance Department of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are material, as discussed in Note 2.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of MPR of Kansas as of June 30, 2012 and 2011 or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of MPR of Kansas as of June 30, 2012 and 2011 and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

As discussed in Note 8 to the financial statements, certain errors resulting in understatement of previously reported contribution taxes as of June 30, 2011 and 2010 were discovered by management of the Company during the current year. Accordingly, an adjustment has been made to the members' fund balance as of June 30, 2011 and 2010, to correct the error.

November 1, 2012

**Midwest Public Risk of Kansas, Inc.**  
**Statutory Statements of Admitted Assets, Liabilities, and Surplus**  
**As of June 30, 2012 and 2011**

	2012	2011
<b>ADMITTED ASSETS</b>		
Cash and cash equivalents	\$ 2,824,420	\$ 1,999,230
Investments:		
U.S. Government securities at amortized cost	-	686,281
Mutual funds at fair value	-	696,283
Equities at fair value	327,414	-
Fixed income securities at amortized cost	353,351	-
Accrued interest	7,518	2,778
Contributions due from members	5,653	3,648
Excess insurance recoverable on paid losses	6,758	-
Other assets	1,332	-
Total admitted assets	<u>\$ 3,526,446</u>	<u>\$ 3,388,220</u>
<b>LIABILITIES AND SURPLUS</b>		
<b>LIABILITIES</b>		
Claim reserves	\$ 638,703	\$ 509,756
Unallocated loss adjustment expense (ULAE) reserves	5,206	17,489
Accounts payable	313,206	1,870
Accrued contribution tax liability	60,030	8,827
Accrued payroll	9,646	9,604
Due to other MPR funds	2,375,256	2,057,933
Wellness program liability	49,772	28,720
Total liabilities	<u>3,451,819</u>	<u>2,634,199</u>
<b>SURPLUS</b>		
Members' fund balance - unreserved (as restated)	<u>74,627</u>	<u>754,021</u>
Total liabilities and surplus	<u>\$ 3,526,446</u>	<u>\$ 3,388,220</u>

See accompanying notes and report of independent auditors.

**Midwest Public Risk of Kansas, Inc.**  
**Statutory Statements of Revenues, Expenses, and Changes in Surplus**  
**For the Years Ended June 30, 2012 and 2011**

	2012	2011
Underwriting revenues:		
Contributions earned (net of excess insurance premiums of \$149,129 and \$72,051 for 2012 and 2011, respectively)	<u>\$ 6,265,637</u>	<u>\$ 6,641,077</u>
Underwriting expenses:		
Incurred losses, net of recoveries:		
Paid	5,961,912	6,242,116
Change in reserves	122,189	(231,051)
Other insurance premiums	43,258	3,430
Contribution taxes	92,002	91,925
Claims administration fees:		
Allocated loss adjustment expenses	374,973	403,070
Change in unallocated loss adjustment expenses	(12,283)	9,911
General and administrative	409,798	389,293
Total underwriting expenses	<u>6,991,849</u>	<u>6,908,694</u>
Net underwriting loss	<u>(726,212)</u>	<u>(267,617)</u>
Net investment income earned	(21,866)	17,496
Net realized capital gain	<u>75,987</u>	<u>13,307</u>
Net investment gain	<u>54,121</u>	<u>30,803</u>
Net loss	(672,091)	(236,814)
Change in non-admitted assets	(11,583)	172,576
Change in unrealized gain on investments	4,280	68,765
Members' fund balance, beginning of year (as restated)	<u>754,021</u>	<u>749,494</u>
Members' fund balance, end of year	<u>\$ 74,627</u>	<u>\$ 754,021</u>

See accompanying notes and report of independent auditors.

**Midwest Public Risk of Kansas, Inc.**  
**Statutory Statements of Cash Flows**  
**For the Years Ended June 30, 2012 and 2011**

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	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Contributions collected, net of excess insurance	\$ 6,568,660	\$ 6,761,453
Losses and loss adjustment expenses paid	(5,961,912)	(6,242,116)
Net investment income collected	(22,708)	20,414
Insurance premiums paid	(46,170)	(10,608)
Contribution taxes paid	(39,967)	(87,293)
Claims administration fees paid	(374,972)	(403,070)
Loss prevention expenses paid	(46,975)	(28,908)
General and administrative expenses paid	(224,071)	(203,686)
Payments for personnel expenses	(144,844)	(142,397)
Net cash used in operating activities	<u>(292,959)</u>	<u>(336,211)</u>
Cash flows from non-capital financing activities:		
Advances from (to) related parties	<u>317,323</u>	<u>2,179,355</u>
Net cash provided by non-capital financing activities	<u>317,323</u>	<u>2,179,355</u>
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	2,098,757	765,439
Cost of investments acquired	<u>(1,297,931)</u>	<u>(768,850)</u>
Net cash provided by (used in) investing activities	<u>800,826</u>	<u>(3,411)</u>
Net change in cash and cash equivalents	825,190	1,839,733
Cash and cash equivalents, beginning of year	<u>1,999,230</u>	<u>159,497</u>
Cash and cash equivalents, end of year	<u>\$ 2,824,420</u>	<u>\$ 1,999,230</u>

See accompanying notes and report of independent auditors.

**Midwest Public Risk of Kansas, Inc.**  
**Notes to Statutory Financial Statements**  
**June 30, 2012 and 2011**

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**1. Reporting Entity**

Midwest Public Risk of Kansas, Inc. was formed effective July 1, 2009 as a result of the reorganization of MARCIT, which was a self-insurance program started July 1, 1983 to provide various types of insurance products, including employee benefits (health and dental), workers' compensation, and property and liability coverages. The MARCIT Board of Directors approved the reorganization of MARCIT into two public entity risk coverage pools and one administrative corporation, collectively known as Midwest Public Risk (MPR). The three new entities formed were:

- Midwest Public Risk (MPR), an administrative corporation providing administrative services to the two state (Kansas and Missouri) coverage pools and owning/managing the MPR building.
- Midwest Public Risk of Missouri (MPR of Missouri, formerly MARCIT), a public entity risk coverage pool providing coverages to Missouri public entities.
- Midwest Public Risk of Kansas, Inc. (MPR of Kansas), a public entity risk coverage pool providing employee benefits and property and liability coverage to Kansas public entities.

Each of the three entities is governed by a Board of Directors. The MPR Board of Directors is made up of directors from MPR of Missouri and MPR of Kansas governing boards.

While the operations have been organized by state, all of the entities share in each other's risk and share joint and severable liability. In addition, both MPR of Missouri and MPR of Kansas have entered into a management agreement with MPR to administer the day-to-day operations. Any profits or losses generated by MPR are ultimately distributed to the risk coverage pools on a proportionate basis.

MPR of Kansas provides employee benefits coverage to members located primarily in the eastern Kansas area and includes cities and counties. The members select the Board of Directors. There were 16 members in MPR of Kansas' employee benefits program as of June 30, 2012, which was one more than at June 30, 2011. Effective December 31, 2012, MPR of Kansas began offering property and liability coverage, with nine members participating in the initial policy year launch.

MPR of Kansas' general objectives are to provide a self-insured program for local governmental entities; to improve the loss prevention program, thereby reducing claims and accidents; to reduce costs through sound and equitable claims management practices; and to provide excess insurance at a discount based on volume and lower risk exposure.

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**Midwest Public Risk of Kansas, Inc.**  
**Notes to Statutory Financial Statements**  
**June 30, 2012 and 2011**

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The financial statements present only the financial position and results of MPR of Kansas and are not intended to present the financial position of MPR or MPR of Missouri and the results of their operations and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP).

**2. Summary of Significant Accounting Policies**

The following is a summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements of MPR of Kansas:

**A. Basis of Presentation – Fund Accounting**

MPR of Kansas operates as a single proprietary fund, more specifically as an enterprise fund. A proprietary fund is used to account for the 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 MPR of Kansas' activities are provided to outside parties, the local governmental members of MPR of Kansas.

The accounts of MPR of Kansas are organized by claim year, each of which is accounted for separately because the composition of membership may change from year to year.

**B. Statutory Accounting Principles**

The accompanying financial statements have been prepared in conformity with the accounting practices prescribed or permitted by the Insurance Department of the State of Kansas, which vary, in some respects, from generally accepted accounting principles (GAAP) in the United States of America. MPR of Kansas 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 Insurance Department of the State of Kansas, as described in the *Annual Statement Instructions* and the *Accounting Practices and Procedures Manual*. "Prescribed" statutory accounting practices include state laws, regulations, and general administrative rules, as well as a variety of publications of the NAIC. "Permitted" 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 and permitted statutory accounting practices and GAAP are as follows:

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**Midwest Public Risk of Kansas, Inc.**  
**Notes to Statutory Financial Statements**  
**June 30, 2012 and 2011**

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

	2012	2011
Investments - NAIC	\$ 680,765	\$ 1,382,564
Investments - GAAP	684,663	1,386,844
Difference	<u>\$ (3,898)</u>	<u>\$ (4,280)</u>

- Certain assets designated as “non-admitted assets” have been charged to fund balance. Under GAAP, those assets would have been reported at the lower of cost or net realizable value. MPR of Kansas’ principal non-admitted assets are miscellaneous receivables, deposits, and prepaid expenses.

	2012	2011
Miscellaneous accounts receivable	\$ 802	\$ -
Deposits	23,455	23,400
Prepaid expenses	19,082	8,356
Total non-admitted assets	<u>\$ 43,339</u>	<u>\$ 31,756</u>

- A comparison of the results of operations for the fiscal years ended June 30, 2012 and 2011, under the two different sets of accounting principles follows:

	<u>For the Year Ended June 30, 2012</u>		
	GAAP	NAIC	Difference
Net underwriting/operating loss	\$ (726,212)	\$ (726,212)	\$ -
Net investment income	(17,968)	(21,866)	3,898
Net realized capital gain	75,987	75,987	-
Change in non-admitted assets	-	(11,583)	11,583
Change in unrealized gain on investments	-	4,280	(4,280)
Members' fund balance, beginning of year	<u>790,057</u>	<u>754,021</u>	<u>36,036</u>
Members' fund balance, end of year	<u>\$ 121,864</u>	<u>\$ 74,627</u>	<u>\$ 47,237</u>

See report of independent auditors.

**Midwest Public Risk of Kansas, Inc.**  
**Notes to Statutory Financial Statements**  
**June 30, 2012 and 2011**

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	<u>For the Year Ended June 30, 2011</u>		
	<u>GAAP</u>	<u>NAIC</u>	<u>Difference</u>
Net underwriting/operating loss	\$ (319,525)	\$ (267,617)	\$ (51,908)
Net investment income	17,496	17,496	-
Net realized capital gain	13,307	13,307	-
Change in non-admitted assets	-	172,576	(172,576)
Change in unrealized gain on investments	64,783	68,765	(3,982)
Members' fund balance, beginning of year	<u>1,013,996</u>	<u>749,494</u>	<u>264,502</u>
Members' fund balance, end of year	<u>\$ 790,057</u>	<u>\$ 754,021</u>	<u>\$ 36,036</u>

**C. Cash and Cash Equivalents**

Interest-bearing deposit accounts are reported at cost plus accrued interest.

**D. Investments**

Investment carrying values have been determined in accordance with the methods prescribed by the NAIC. Bonds are reported at amortized cost. Investment income, less investment fees, 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 realized loss in the statement of operations, and the cost basis of the security is reduced to its estimated fair market value. Mutual funds are reported at fair market value. Unrealized gains and losses are recognized on the statutory statement of revenues, expenses, and changes in surplus.

**E. Excess Insurance Recoverable on Paid Losses**

MPR of Kansas uses excess insurance agreements to reduce its exposure to large losses. Excess insurance permits recovery of a portion of losses from the excess insurer, although it does not discharge the primary liability of MPR of Kansas as direct insurer of the risks, and MPR of Kansas thus remains contingently liable for amounts which excess carriers might be unable to pay. As of June 30, 2012 and 2011, MPR of Kansas' excess insurance receivable was as follows:

	<b>2012</b>	<b>2011</b>
Excess insurance recoverable	<u>\$ 6,758</u>	<u>\$ -</u>

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**Midwest Public Risk of Kansas, Inc.**  
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**F. Claim Reserves**

The employee benefits coverage is provided on a modified "claims made" basis, wherein the claim must have been incurred when the employee had coverage with MPR and must be reported within 12 months following the date such claim was incurred. A claim incurred in one fiscal year (claim period) and reported in the following fiscal year (claim period) will be covered, provided the employee had coverage when the claim was incurred.

**G. Unallocated Loss Adjustment Expenses**

Should MPR of Kansas decide not to continue operations, the accrued unallocated loss adjustment expense of \$5,206 would cover the future handling of unsettled claims as of June 30, 2012. For the year ended June 30, 2011, this liability was \$17,489.

**H. Accrued Contribution Tax Liability**

The accrued contribution tax liability is a tax assessed by the State of Kansas on contributions collected from MPR of Kansas' employee benefits members. The total tax owed for the fiscal year is due and paid to the state by September 30<sup>th</sup> of the following fiscal year. The accrued contribution tax liability as of June 30, 2012 and 2011 was \$60,030 and \$8,827, respectively.

**I. Unearned Contributions**

Contributions for the employee benefits coverage are due the first of each month, whereas property and liability contributions are collected at the beginning of the fiscal year (December 31<sup>st</sup> for the property and liability program only); however, sometimes members process and mail their payments prior to the due date. As of June 30, 2012 and 2011, MPR of Kansas had received early contributions payments of \$1,942 and \$17 for July 2012 and 2011, respectively.

See report of independent auditors.

**Midwest Public Risk of Kansas, Inc.**  
**Notes to Statutory Financial Statements**  
**June 30, 2012 and 2011**

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**J. 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 MPR of Kansas employee benefits and property and liability programs. MPR of Kansas is an assessable pool, and members participating in a given claim year may be assessed additional contributions if expenses exceed revenues for such claim year. To the extent revenues exceed expenses in a given claim year after all, or nearly all, related claims have been settled, and the Board of Directors and members authorize and approve a full or partial distribution of the surplus for that claim year, members participating in such claim year are entitled to receive a refund of contributions. There were no additional assessments or refunds of contributions to the MPR of Kansas members for the years ended June 30, 2012 and 2011.

As previously discussed, prior to July 1, 2009, MPR of Kansas existed as part of MARCIT. To affect the reorganization, fund balance of \$1,085,312 was transferred from MARCIT to MPR of Kansas. The \$74,627 in members' fund balance as of June 30, 2012 represents the sum of the transfer plus the cumulative net results since inception. Certain portions of members' fund balance were designated for a net reserve capital (NRC) fund. The remaining balance of members' fund balance has been designated for liquidity. The balances as of June 30, 2012 and 2011 are shown below:

	2012	2011
Designated for net reserve capital fund	\$ -	\$ 233,722
Designated for liquidity	<u>74,627</u>	<u>520,299</u>
Total members' fund balance - unreserved	<u>\$ 74,627</u>	<u>\$ 754,021</u>

The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains and losses at June 30, 2012 and 2011 was \$921 and \$450,873, respectively.

**K. Contributions Earned**

Employee benefits contributions are billed on a monthly basis and recognized as revenue in the month for which coverage is provided. Property and liability contributions are billed annually and recognized evenly over the fiscal year. The Board of Directors determines contributions on an annual fiscal year basis.

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**Midwest Public Risk of Kansas, Inc.**  
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**L. Incurred Losses and Recoveries**

Incurred losses and recoveries represent claim expenses related to providing employee benefits and property and liability coverage. The incurred losses and recoveries include:

- Paid claims, net of recoveries
- Claim reserves, net of recoveries
- Loss adjustment expenses

**M. Statutory Statements of Cash Flows**

For purposes of the statutory statements of cash flows, cash and cash equivalents includes interest-bearing deposit accounts.

**N. Federal Income Taxes**

In the opinion of legal counsel, MPR of Kansas is a governmental unit and is not subject to federal income taxes under Section 115 of the Internal Revenue Code.

**O. Acquisition Costs**

MPR of Kansas incurs acquisition costs related to the acquisition of new or renewal contracts. MPR of Kansas' policy is to expense the costs as incurred.

**P. Use of Estimates**

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of Kansas requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Q. Reclassifications**

Certain prior year amounts have been reclassified to conform to the current presentation. Such reclassifications had no impact on the change in surplus for that year.

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**Midwest Public Risk of Kansas, Inc.**  
**Notes to Statutory Financial Statements**  
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**3. Cash and Investments**

**A. Cash and Cash Equivalents**

MPR of Kansas maintains various interest-bearing deposit accounts to handle cash receipts, disbursements, and idle cash balances for its funds. Deposits in financial institutions must be collateralized by securities pledged to MPR Kansas by these same institutions. At June 30, 2012 and 2011, MPR Kansas' bank balances were either fully insured by Federal Depository Insurance Corporation (FDIC) or collateralized with securities held by MPR of Kansas or by its agent in MPR of Kansas' name.

**B. Investments**

MPR of Kansas' articles of incorporation and bylaws contain no provision regarding deposits or the type of investments that may be purchased. The State of Kansas restricts the type of investments MPR of Kansas 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.

MPR of Kansas' investment policy contains an asset allocation policy that includes: short-term investments, U.S. Treasury obligations, U.S. government direct agency obligations, collateralized and/or FDIC insured time and demand deposits, collateralized repurchase agreements, mortgage-backed, asset-backed, and commercial mortgage-backed securities, collateralized mortgage obligations, corporate bonds, commercial paper, bankers' acceptances, and municipal bonds. Additionally, the risk asset allocation policy limits the amount of the following investments: U.S. equities (large, mid, and small), international equity/debt, commodities, high-yield fixed income, and cash equivalents.

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 possible that changes in risks in the near term could materially affect the amounts reported in the statement of admitted assets, liabilities, and surplus and the statement of revenues, expenses, and changes in surplus. The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair market values of investments as of June 30, 2012 and 2011 were as follows:

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**Midwest Public Risk of Kansas, Inc.**  
**Notes to Statutory Financial Statements**  
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	<b>June 30, 2012</b>			
	<b>Amortized Cost or Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Market Value</b>
Equities	\$ 300,880	\$ 28,527	\$ (1,993)	\$ 327,414
Fixed income	353,351	4,178	(280)	357,249
Mutual funds	-	-	-	-
U.S. government securities	-	-	-	-
Total fixed maturities	<u>654,231</u>	<u>32,705</u>	<u>(2,273)</u>	<u>684,663</u>
Cash	2,824,420	-	-	2,824,420
Short-term investments	-	-	-	-
Total cash and invested assets	<u>\$ 3,478,651</u>	<u>\$ 32,705</u>	<u>\$ (2,273)</u>	<u>\$ 3,509,083</u>

	<b>June 30, 2011</b>			
	<b>Amortized Cost or Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Market Value</b>
Equities	\$ -	\$ -	\$ -	\$ -
Fixed income	-	-	-	-
Mutual funds	481,231	65,146	-	546,377
U.S. government securities	686,281	4,280	-	690,561
Total fixed maturities	<u>1,167,512</u>	<u>69,426</u>	<u>-</u>	<u>1,236,938</u>
Cash	1,999,230	-	-	1,999,230
Short-term investments	149,906	-	-	149,906
Total cash and invested assets	<u>\$ 3,316,648</u>	<u>\$ 69,426</u>	<u>\$ -</u>	<u>\$ 3,386,074</u>

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Generally accepted accounting principles (GAAP) provide for a fair market value hierarchy which requires MPR of Kansas to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair market value. The three levels of inputs that may be used to measure fair market value are:

- **Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets MPR of Kansas has the ability to access as of the measurement date.
- **Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- **Level 3:** Significant unobservable inputs that reflect MPR of Kansas' own assumptions about what market participants would use in pricing an asset or liability.

**Fair Market Value Measurements at June 30, 2012 Using:**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Agency MBS	\$ -	\$ 66,506	\$ -
Corporate Bonds	-	290,743	-
Bond Funds/ETFs	83,545	-	-
Equity Funds/ETFs	243,869	-	-
Total invested assets	\$ 327,414	\$ 357,249	\$ -

The fair market value of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

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The amortized cost and estimated fair market value of debt securities at June 30, 2012 and 2011, by contractual maturity, are shown below. The estimated fair market values for debt maturities are based on quoted market prices. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

	June 30, 2012		June 30, 2011	
	Amortized Cost	Estimated Fair Market Value	Amortized Cost	Estimated Fair Market Value
Due in years 1 through 5	\$ 587,445	\$ 618,157	\$ 836,187	\$ 840,467
Due in years 6 through 10	66,786	66,506	481,231	546,377
Total invested assets	\$ 654,231	\$ 684,663	\$ 1,317,418	\$ 1,386,844

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**Midwest Public Risk of Kansas, Inc.**  
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**4. Reconciliation of Claim Reserves**

An analysis of claim reserves during the years ended June 30, 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
Claim reserves at beginning of year, net of recoveries	<u>\$ 509,756</u>	<u>\$ 740,807</u>
Incurred claims and claim adjustment expenses, net of recoveries:		
Provision for insured events of the current year	5,865,662	6,011,065
Adjustment to provision for insured events of prior years	<u>218,439</u>	<u>-</u>
Total incurred claims and claim adjustment expenses, net of recoveries	<u>6,084,101</u>	<u>6,011,065</u>
Payments, net of recoveries:		
Claims and claim adjustment expenses attributable to insured events of the current year	5,229,879	5,863,470
Claims and claim adjustment expenses attributable to insured events of prior years	<u>732,034</u>	<u>378,646</u>
Total payments, net of recoveries	<u>5,961,912</u>	<u>6,242,116</u>
Claim reserves at end of year, net of recoveries	<u>\$ 631,945</u>	<u>\$ 509,756</u>
Statements of Admitted Assets, Liabilities, and Surplus recap:		
Claim reserves	\$ 638,703	\$ 509,756
Excess insurance recoverable on paid losses	<u>(6,758)</u>	<u>-</u>
Claim reserves at end of year, net of recoveries	<u>\$ 631,945</u>	<u>\$ 509,756</u>

See report of independent auditors.

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

MPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, just like the members for which it provides coverage. MPR is insured through the very same programs it provides to its members. There have been no claims, and therefore, no settlements, in any of the last three years. Deductibles for the property and liability coverages range from \$2,500 to \$5,000. The workers' compensation coverage is not subject to a deductible.

MPR 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 MPR as direct insurer of the risks.

MPR retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by purchased excess insurance. A brief description of each of the programs follows. The self-insured retention amounts and excess insurance limits are listed in item C following the descriptions.

**A. Employee Benefits Fund**

MPR of Kansas' health program uses both deductibles and co-payments to spread the cost of the program and offers members the choice of three indemnity plans and a consumer directed health plan. All plans utilize preferred provider organizations (PPO). Provided enrollees stay in the network, one plan pays benefits at 90%, the second plan at 80%, and the third plan, offered only to retirees, pays benefits at 50% with no deductibles. MPR of Kansas also offers members a health maintenance organization (HMO) plan through Humana. This plan requires minimal co-payments. The excess insurance covers only paid claims within the fiscal year and does not cover claims reported but not processed or incurred but not reported. Premiums for this excess insurance coverage were \$72,243 and \$72,051 for the years ended June 30, 2012 and 2011, respectively. Those amounts are shown as a reduction of contributions earned.

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**B. Property and Liability Fund**

**(1) Liability Coverage**

MPR of Kansas' liability coverage offers general liability, public officials/employment practices liability, auto liability, and crime and fidelity coverage. These coverages are continually refined to incorporate the Kansas Tort Claims Act limits, and recent court decisions.

**(2) Property Coverage**

MPR of Kansas offers property coverage to protect members' buildings, contents, inland marine, and auto physical damage, in addition to flood and earthquake coverage.

Premiums for liability and property coverage were \$76,886 for the year ended June 30, 2012.

**C. Self-Insured Retention Amounts and Excess Insurance Limits**

Following are the self-insured retention and excess insurance limits.

	<b>2012</b>	<b>2011</b>
<b>Employee Benefits:</b>		
Self-insured retention:		
Specific	\$ 375,000	\$ 375,000
Excess insurance limit:		
Specific	\$ 1,625,000	\$ 1,625,000
<b>Liability (Note 2):</b>		
Self-insured retention:		
Specific	\$ 500,000	N/A
Excess insurance limits:		
Specific (Note 1)	\$ 500,000	N/A
Aggregate (millions)	\$ 20	N/A
<b>Property (Note 2):</b>		
Self-insured retention:		
Specific	\$ 250,000	N/A
Excess insurance limits:		
Specific (millions)	\$ 85	N/A
Aggregate (millions)	\$ 85	N/A

Note 1: Liability limit is dictated by the Kansas Tort Claims Act, which limits the amount for any number of claims arising out of a single occurrence or accident.

Note 2: Other deductibles and sub-limits apply to various types of losses.

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**6. Service Provider Agreements**

Administration, underwriting, and claims management services are provided by Benefit Management, Inc., Humana, Delta Dental, and Vision Service Plan. Third party claims management services for the property and liability program are provided by Corporate Claims Management, Inc. The allocated loss adjustment expense for the years ended June 30, 2012 and 2011 was \$374,973 and \$403,070 respectively. The unallocated loss adjustment expense (credit) for the years ended June 30, 2012 and 2011 was (\$12,283) and \$9,911, respectively.

**7. Related Party Transactions**

Effective July 1, 2009, MPR of Kansas entered into a risk sharing agreement with MPR of Missouri so each entity could obtain a larger risk sharing base by the aggregation of their assets and liabilities, thereby obtaining greater economies of scale cost savings resulting from the common joint administration. To accomplish this goal, both MPR of Kansas and MPR of Missouri entered into a management agreement with MPR, whereby MPR manages and administers the Employee Benefits Fund and the Property and Liability Fund established by MPR of Kansas and MPR of Missouri on a day-to-day basis in order to achieve the objectives of the funds. Administrative functions include: establishing and maintaining budgets, projections, studies, and analysis of the funds; establishing coverage documents in cooperation with the executive committee; distributing surplus or assessing deficiencies as determined by the executive committee and authorized by law; accepting and/or rejecting applications for membership; and hiring employees and retaining third party administrators. MPR does not receive a management fee for these services, but instead is reimbursed for the actual costs incurred in administering the pools. Costs are allocated to the pools based upon the type of fund (employee benefits, workers' compensation, and/or property and liability) for which the costs are incurred. Those costs associated with the funds are allocated to MPR of Kansas based on its percentage of contributions to the total combined employee benefits contributions and total combined property and liability contributions of both MPR of Missouri and MPR of Kansas.

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**8. Members' Fund Balance Restatement**

During the fiscal year ended June 30, 2012, MPR discovered a portion of Kansas contribution taxes and other state specific filing and audit expenses for the years ended June 30, 2011 and 2010 were previously erroneously allocated to MPR of Missouri when they should have been allocated to MPR of Kansas only. The expenses allocated in error total \$79,625 and \$58,332 for the year ended June 2011 and 2010, respectively. The following table restates what Net Loss and Members' Fund balance as of June 30, 2011 and 2010 is based on the proper expense allocation:

	<u>2011</u>	<u>2010</u>
Net Loss, as previously reported	\$ (157,189)	\$ (73,815)
Restatement	<u>(79,625)</u>	<u>(58,332)</u>
Net Loss, restated	<u>\$ (236,814)</u>	<u>\$ (132,147)</u>
Members' Fund Balance , as previously reported	\$ 891,978	\$ 807,826
2010 Restatement	(58,332)	(58,332)
2011 Restatement	<u>(79,625)</u>	N/A
Members' Fund Balance, restated	<u>\$ 754,021</u>	<u>\$ 749,494</u>

**9. Subsequent Event**

Effective July 1, 2012, MPR of Kansas changed its PPO network provider and third party claims administrator to Cigna. Preferred Health Providers and Benefits Management, Inc. (BMI) performed each of these services, respectively, for MPR of Kansas prior to the change. Cigna was selected as the new provider as they provide bigger discounts in the rural areas. BMI will continue to provide third party eligibility and invoicing services. Humana was retained as the HMO network provider and claims administrator.

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