



**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**WITH SUPPLEMENTARY SCHEDULES**

**2018**

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY  
2018 MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OBJECTIVE AND BACKGROUND**

This discussion provides management's assessment of the current financial position, results of operations, cash flows and liquidity of Kentucky Employers' Mutual Insurance Authority (KEMI, or the Company). Information presented in this discussion supplements the schedules and exhibits included in KEMI's statutory basis Annual Statement filed with the Department of Insurance of the Commonwealth of Kentucky.

KEMI is a unique entity in the Kentucky workers' compensation insurance marketplace. KEMI operates as a self-supporting, competitive state fund created for the purpose of providing both a market of last resort for employers in the Commonwealth, as well as furnishing another competitive source of insurance in the voluntary market through which employers may secure and maintain their workers' compensation coverage. KEMI performs its duties under authority granted directly to it by the Kentucky General Assembly. Except for items specifically addressed in its enabling statute, KEMI operates as a domestic mutual insurance company. KEMI began writing business effective September 1, 1995.

KEMI is governed by a ten member board of directors. Seven board members are appointed by the Governor and three board members are specified cabinet secretaries. The board is responsible for hiring a manager, and both the board and the manager are given specific statutory duties.

The Company endeavors to maintain fiscal discipline in the administration of workers' compensation insurance by keeping the cost of coverage affordable to all employers in the Commonwealth through increased competition and by providing superior service to policyholders and claimants. In addition, the Company offers loss education programs and safety training to help policyholders control their own destiny in the marketplace. KEMI has no public funding and sets its standards based on long-term financial stability. KEMI does, in fact, make workers' comp work.

**FINANCIAL POSITION**

The Statement of Admitted Assets, Liabilities and Policyholder Surplus (balance sheet) reflects KEMI's financial position at year end. KEMI's condensed balance sheets as of December 31 were as follows:

	<u>2018</u>	<u>2017</u>
<b>Admitted Assets:</b>		
Long-term bonds	\$ 838,021,650	\$ 803,970,573
Common stocks	70,699,997	60,542,661
Cash and short-term investments	35,224,679	32,872,947
Real estate	5,020,818	5,020,818
Other invested assets	<u>13,082,901</u>	<u>9,235,298</u>
Subtotal cash and invested assets	962,050,045	911,642,297
Investment income receivable	6,309,754	5,352,520
Premiums receivable or deferred	59,550,069	50,226,177
Receivables for retroactive reinsurance assumed	15,051,836	26,615,629
Other admitted assets	<u>75,367</u>	<u>137,075</u>
 Total admitted assets	 <u>\$ 1,043,037,071</u>	 <u>\$ 993,973,698</u>

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	<u>2018</u>	<u>2017</u>
<b>Liabilities and Policyholder Surplus:</b>		
Unpaid losses and loss adjustment expenses	\$ 633,282,511	\$ 601,885,415
Premiums written but not yet earned	74,838,627	71,487,584
Commissions and accounts payable	17,856,753	16,395,199
Amounts withheld or retained for others	13,381,070	10,571,124
Retroactive reinsurance reserves assumed	70,734,602	69,023,448
Retroactive reinsurance reserve ceded	(14,115,842)	(22,982,011)
Funds withheld on retroactive reinsurance ceded	18,028,065	25,544,461
Liability for projected pension and postretirement benefits	10,852,340	13,537,265
Other liabilities	<u>2,376,026</u>	<u>1,764,802</u>
Total liabilities	827,234,152	787,227,287
Policyholder surplus	<u>215,802,919</u>	<u>206,746,411</u>
Total liabilities and policyholder surplus	<u>\$ 1,043,037,071</u>	<u>\$ 993,973,698</u>

During 2018 KEMI's policyholder surplus increased by \$9,056,508. An increase of \$20,807,371 was the result of KEMI's net income for the year. This increase was offset by net unrealized capital losses of \$14,693,870 on investments due to volatile market conditions in the fourth quarter of 2018. Other increases in surplus were the result of actuarial changes to projected pension benefits and postretirement benefits of \$2,684,925, changes in non-admitted assets of \$255,082 and a change in the provision for reinsurance of \$3,000.

**Assets**

Cash and invested assets made up 92% of KEMI's total admitted assets at the end of 2018. KEMI's long-term bond portfolio had a carrying value of \$838,021,650 and a fair market value of \$822,306,746. Over 96% of long-term bonds held at year end were rated either NAIC 1 (highest quality) or NAIC 2 (high quality). Money market funds had a fair market value of \$21,421,380 and operating cash balances totaled \$13,803,299. The fixed income portfolio had an effective maturity of 5.72 years, an average book yield of 3.27% and an average credit rating of A+. Common stocks, which were stated at fair market value as determined by the Securities Valuation Office of the NAIC, totaled \$70,699,997 and reflected a net unrealized loss of \$2,900,593 at year end. In addition, KEMI holds a non-controlling limited partnership interest in ElmTree US Net Lease Fund III, LP in the amount of \$13,082,901. KEMI's total commitment to this fund is \$20 million; the fund has been paying returns of 8% annually.

Premiums receivable or deferred are policy payments due from KEMI policyholders. As a result of payment plan arrangements offered by KEMI, \$46,897,826 of the \$59,550,069 in premium balances reflected on the 2018 balance sheet represent future installments that were deferred and not yet due. Statutory Accounting Principles also require management to estimate the amount of premium that will be earned but unbilled at the end of each policy in force based upon past policy audit experience. Management's estimate of \$3,391,729 is included in KEMI's deferred premium balances.

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Non-admitted assets are those assets which, under Statutory Accounting Principles, must be excluded from the balance sheet by a direct charge to surplus. At the end of 2018 KEMI's non-admitted assets totaled \$18,018,270 for a net decrease of \$255,082 from the prior year. Included in non-admitted assets is \$4,994,758 of premium balances that are more than 90 days past due or are otherwise determined to be uncollectible. The collectability of these receivables is regularly assessed and balances are written off to bad debt only after all efforts to secure payment have been exhausted. Other non-admitted assets include pension and postretirement assets of \$11,828,507 which will be amortized through the income statement over the next seven years, undepreciated balances of furniture, equipment and application software of \$29,819, prepaid expenses of \$797,462 and other miscellaneous receivables of \$367,724.

**Liabilities**

Reserves for unpaid losses and loss adjustment expenses are stated at the Company's best estimate of the ultimate cost, net of ceded reinsurance, of settling all incurred but unpaid claims. Unpaid loss and loss adjustment expense reserves are based on industry statistics and Company history, along with management's expectations of loss relative to premiums earned by accident year. The method for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined. During 2018, adjustments to the loss and loss adjustment expense reserves of prior accident years resulted in a net increase of \$2,690,177 to those reserves.

In recent years, KEMI has experienced an increase in the number of federal occupation disease (black lung) claims reported. This increase is the result of both a decrease in the coal mining industry's workforce as well as recent amendments to the Federal Coal Mine Health and Safety Act. The Company closely monitors economic and regulatory changes impacting the coal industry, and continually evaluates the need for additional protection from losses which might arise from this industry segment.

Effective December 31, 2017, KEMI elected to discount the indemnity portion of federal black lung claim reserves on a tabular basis at a rate of 3.5%. Tabular discounting of indemnity reserves is a permitted practice of the NAIC and the Department of Insurance of the Commonwealth of Kentucky, and it is a common industry practice to discount the indemnity portion of federal black lung claim reserves as these claim payments are predictable, long-term in nature and ideal for discounting.

KEMI maintains Excess of Loss reinsurance coverage with unaffiliated, high quality reinsurers to limit its exposure to individual large losses as well as geographical concentrations of policyholders. KEMI also maintains an adverse development cover with an unaffiliated reinsurer that provides additional reinsurance protection against unfavorable development arising from existing and/or newly reported claims for accident years 1995 through 2014.

At the end of 2018, KEMI had 5,043 open claims from direct business, consisting of 3,146 indemnity claims and 1,897 medical-only claims. KEMI also had 67 open claims from business assumed under the Company's multi-state program, which provides workers' compensation coverage to Kentucky-based policyholders with similar operations in other states.

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Management believes that its loss reserving methodologies are conservative and that the Company's reserves are adequate. KEMI's reserves are evaluated at least twice a year by an independent actuary who provides an annual Statement of Actuarial Opinion to KEMI's independent auditors and to regulatory agencies. KEMI received an Unqualified Statement of Actuarial Opinion for 2018, as it has every year since its inception.

Activity with respect to losses and loss adjustment expenses is displayed below:

	<u>2018</u>	<u>2017</u>
Unpaid losses and loss adjustment expenses, January 1	\$ 601,885,415	\$ 587,624,852
Gross losses incurred	104,517,097	114,118,232
Gross loss adjustment expenses incurred	28,546,461	18,957,442
Ceded losses and loss adjustment expenses incurred	(2,324,189)	(1,751,837)
Subrogation recoveries incurred	<u>(389,840)</u>	<u>(209,876)</u>
Net incurred	<u>130,349,529</u>	<u>131,113,961</u>
Gross losses paid	77,862,700	92,140,389
Gross loss adjustment expenses paid	23,221,649	25,177,996
Ceded losses and loss adjustment expenses recovered	(1,742,076)	(255,111)
Subrogation recovered	<u>(389,840)</u>	<u>(209,876)</u>
Net paid	<u>98,952,433</u>	<u>116,853,398</u>
Unpaid losses and loss adjustment expenses, December 31	<u>\$ 633,282,511</u>	<u>\$ 601,885,415</u>

During 2014, KEMI voluntarily executed a loss portfolio transfer with the Kentucky Commissioner of Insurance, Rehabilitator of the Kentucky School Boards Insurance Trust Workers' Compensation Self Insurance Fund (KSBIT). In exchange for \$35 million of guaranteed assessments due from the school boards formerly insured by KSBIT, KEMI assumed responsibility for approximately \$35 million in unpaid claim liabilities. As of December 31, 2018, the liability for unpaid claims was \$27,863,737 and the balance of assessments receivable was \$5,681,133. Reserves for these unpaid losses and loss adjustment expenses are not discounted.

During 2018, KEMI voluntarily executed a loss portfolio transfer with the Kentucky Workers' Compensation Funding Commission (the Funding Commission) wherein all authority and responsibility to administer the Kentucky Coal Workers' Pneumoconiosis Fund (KCWPF) was transferred from the Funding Commission to KEMI. The purpose of KCWPF is to pay one-half of the indemnity benefits for coal-related occupational disease claims incurred on or after December 12, 1996 and filed on or before June 30, 2017. Pursuant to this loss portfolio transfer, the Funding Commission transferred all existing assets and liabilities of KCWPF to KEMI. The Funding Commission continues to collect and remit to KEMI quarterly assessments in a manner consistent with past practice, until such time as both parties agree that all claim liabilities are fully funded. As of December 31, 2018, the liability for unpaid claims was \$42,870,865 and the balance of assessments receivable was \$9,370,703. Reserves for these unpaid losses and loss adjustment expenses are not discounted.

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As of July 1, 2016, KEMI established a contributory 401(a) defined benefit pension plan for which it is the plan sponsor. This defined benefit plan was only made available to active employees at June 30, 2016 who were fully vested in the company's predecessor plan, the Kentucky Retirement Systems' (KRS) defined benefit pension plan. KEMI's defined benefit plan provides pension benefits and a partial subsidy of retiree health insurance premiums for eligible KEMI employees who chose to participate in the plan. Active employees who either were not eligible or who chose not to participate in KEMI's defined benefit plan, but who were participants in the KRS defined benefit pension plan (whether vested or non-vested), were given the option of remaining with KRS or participating in KEMI's 401(a) defined contribution plan with an enhanced match rate and access to the retiree health insurance plan. Employees hired on or after July 1, 2016 are not eligible to participate in the defined benefit pension plan or the postretirement health insurance plan, but may instead participate in a defined contribution plan under which they receive employer matching funds equal to 6% of their salary.

Participating employees are required to contribute 6% of their salary to the plan in which they participate. KEMI contributes 20% of eligible salaries to the defined benefit plan, \$312,000 to the retiree health insurance plan, and pre-determined match rates to the defined contribution plan. During 2018, KEMI contributed an additional \$2 million to the defined benefit plan to cover a shortfall in the initial funding of prior service cost arising from the KRS transition in 2016. Employer contribution rates to the defined benefit and postretirement health insurance plans are evaluated as deemed necessary to ensure the financial soundness of the plan.

**Policyholder Surplus**

The Company's overall financial position remained strong in 2018. KEMI's mission is to make workers' compensation coverage affordable to employers by adhering to financially responsible underwriting practices, promoting safety in the workplace, protecting itself against unfavorable loss development and controlling overhead costs. Management regularly evaluates premium and claim levels, operating expenditures and investment performance to maintain the Company's sound financial footing. Looking forward, increases to surplus are expected from net investment income, modest rate adjustments and a continued focus on controlling operating expenses.

**RESULTS OF OPERATIONS**

The Statement of Income measures the results of operations during the reporting period. KEMI's condensed Statements of Income for the years ended December 31 were as follows:

	<u>2018</u>	<u>2017</u>
Net premiums earned	\$ 157,752,102	\$ 153,701,689
Net losses and loss adjustment expenses	130,349,529	131,113,961
Underwriting expenses	<u>34,143,952</u>	<u>35,849,610</u>
Underwriting loss	(6,741,379)	(13,261,882)
Net investment income	25,058,082	22,813,377
Net realized capital gains	5,806,415	5,304,734
Other income (expenses)	(830,524)	(870,817)
Net periodic pension and postretirement benefit costs	<u>(2,485,223)</u>	<u>(3,265,485)</u>
Net income	<u>\$ 20,807,371</u>	<u>\$ 10,719,927</u>

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**CASH FLOW AND LIQUIDITY**

**Cash Flow**

The Statement of Cash Flows reports cash provided by or used for operations, investments and other sources. KEMI's condensed Statements of Cash Flows for the years ended December 31 were as follows:

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operations:</b>		
Net cash from underwriting and claims	\$ 19,773,535	\$ 4,688,479
Investment income received	26,769,821	25,915,948
Miscellaneous income/(expense)	<u>(3,315,747)</u>	<u>(4,136,302)</u>
Net cash provided by (used for) operations	<u>43,227,609</u>	<u>26,468,125</u>
<b>Cash Flows from Investments:</b>		
Proceeds from investments sold or matured	295,145,304	225,729,159
Cost of investments acquired	<u>(352,905,537)</u>	<u>(253,946,786)</u>
Net cash provided by (used for) investments	<u>(57,760,233)</u>	<u>(28,217,627)</u>
<b>Cash Flows from Other Sources:</b>		
Net cash from retroactive reinsurance transactions	13,274,947	23,375,744
Other cash provided (applied)	<u>3,609,409</u>	<u>(4,367,421)</u>
Net cash provided by (used for) other sources	<u>16,884,356</u>	<u>19,008,323</u>
Net change in cash and short-term investments	2,351,732	17,258,821
Cash and short-term investments, beginning of year	<u>32,872,947</u>	<u>15,614,126</u>
Cash and short-term investments, end of year	<u>\$ 35,224,679</u>	<u>\$ 32,872,947</u>

**Liquidity**

KEMI's portfolio of cash and invested assets exceeds the estimated amounts eventually required to satisfy KEMI's liabilities. As additional funds become available, they are primarily invested in high quality long-term bonds. Maturity dates for KEMI's fixed income securities closely match the actuarial expected payout of losses and loss adjustment expenses. KEMI's equity positions are highly rated with a focus on steady dividends and are actively traded on major exchanges. KEMI maintains sufficient cash balances on hand to meet its obligations as they come due.

***NOTE:** To the extent that the above comments constitute forward-looking statements, these statements are not guarantees of future performance. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about the Company, economic and market factors, judicial rulings and the insurance industry, among other things. Actual events and results may differ materially from those expressed in forward-looking statements.*

**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**  
**Quarterly Statement of Assets, Liabilities, Policyholders' Surplus and Net Income**  
**Statutory Basis of Accounting**

BALANCE SHEET	Quarter ended 3/31/2018		Quarter ended 6/30/2018		Quarter ended 9/30/2018		Quarter ended 12/31/2018		Year ended 12/31/2018			
<b>ASSETS</b>												
Long-term bonds	\$	814,472,691	\$	819,264,498	\$	825,135,589	\$	838,021,650	\$	838,021,650		
Common stocks		59,209,064		59,103,694		71,625,433		70,699,997		70,699,997		
Cash and short-term investments		30,282,862		39,964,104		72,259,614		35,224,679		35,224,679		
Real estate		5,020,818		5,020,818		5,020,818		5,020,818		5,020,818		
Other invested assets		11,349,136		11,349,136		12,640,509		13,082,901		13,082,901		
Receivable for securities		104,200		0		10,020,107		0		0		
Investment income due and accrued		5,010,237		5,503,542		5,280,553		6,309,754		6,309,754		
Premiums in course of collection		10,798,357		18,599,365		10,272,502		12,652,243		12,652,243		
Premiums deferred and not yet due		42,682,272		22,562,033		38,768,539		46,897,826		46,897,826		
Reinsurance receivable		75,312		89,443		100,954		56,225		56,225		
Electronic data processing equipment		57,236		44,537		31,840		19,142		19,142		
Receivables for retroactive reinsurance reserves assumed		22,646,155		21,574,689		19,070,429		15,051,836		15,051,836		
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>1,001,708,340</b>	<b>\$</b>	<b>1,003,075,859</b>	<b>\$</b>	<b>1,070,226,887</b>	<b>\$</b>	<b>1,043,037,071</b>	<b>\$</b>	<b>1,043,037,071</b>		
<b>LIABILITIES &amp; SURPLUS</b>												
Loss reserves	\$	566,324,327	\$	572,282,591	\$	581,457,982	\$	584,639,044	\$	584,639,044		
Loss adjustment expense reserves		43,881,371		43,746,544		44,627,237		48,643,467		48,643,467		
Commissions payable		11,504,495		10,896,412		10,528,129		12,699,833		12,699,833		
Other expenses payable		4,256,709		4,236,870		4,971,808		5,156,920		5,156,920		
Unearned premiums		71,857,466		62,218,480		73,597,241		74,838,627		74,838,627		
Ceded reinsurance premiums payable		(1,076,781)		(1,017,628)		(986,628)		192,229		192,229		
Funds withheld under reinsurance treaties		492,618		468,534		432,986		866,624		866,624		
Amounts withheld or retained for others		10,039,286		10,157,915		11,753,996		13,381,070		13,381,070		
Remittances and items not allocated		755,500		926,076		759,775		817,173		817,173		
Provision for reinsurance		3,000		3,000		3,000		0		0		
Payable for securities		0		1,000,000		39,743,713		500,000		500,000		
Retroactive reinsurance reserves assumed		68,849,527		68,382,821		71,514,032		70,734,602		70,734,602		
Retroactive reinsurance reserve ceded		(27,755,279)		(28,309,307)		(28,012,860)		(14,115,842)		(14,115,842)		
Funds withheld on retroactive reinsurance reserve ceded		30,650,775		31,540,764		31,583,217		18,028,065		18,028,065		
Liability for projected pension and postretirement benefits		12,709,952		11,882,639		11,055,326		10,852,340		10,852,340		
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>792,492,966</b>	<b>\$</b>	<b>788,415,711</b>	<b>\$</b>	<b>853,028,954</b>	<b>\$</b>	<b>827,234,152</b>	<b>\$</b>	<b>827,234,152</b>		
<b>POLICYHOLDER SURPLUS (BEGINNING)</b>	<b>\$</b>	<b>206,746,411</b>	<b>\$</b>	<b>209,215,374</b>	<b>\$</b>	<b>214,660,148</b>	<b>\$</b>	<b>217,197,933</b>	<b>\$</b>	<b>206,746,411</b>		
Net income/(loss) after policyholder dividends		9,949,147		4,716,232		(1,239,222)		7,381,214		20,807,371		
Net unrealized capital gains/(losses)		(9,096,655)		(490,173)		3,570,902		(8,677,944)		(14,693,870)		
Change in non-admitted assets		789,158		391,402		(621,208)		(304,270)		255,082		
Change in provision for reinsurance		0		0		0		3,000		3,000		
Change in projected pension and postretirement benefits		827,313		827,313		827,313		202,986		2,684,925		
<b>POLICYHOLDER SURPLUS (ENDING)</b>		<b>209,215,374</b>		<b>214,660,148</b>		<b>217,197,933</b>		<b>215,802,919</b>		<b>215,802,919</b>		
<b>TOTAL LIABILITIES &amp; POLICYHOLDER SURPLUS</b>	<b>\$</b>	<b>1,001,708,340</b>	<b>\$</b>	<b>1,003,075,859</b>	<b>\$</b>	<b>1,070,226,887</b>	<b>\$</b>	<b>1,043,037,071</b>	<b>\$</b>	<b>1,043,037,071</b>		
<b>INCOME STATEMENT</b>												
Net premiums earned	\$	37,704,583	100.00%	\$	39,969,802	100.0%	\$	38,826,334	100.00%	\$	157,752,102	100.00%
Deductions:												
Net losses incurred		26,756,069	71.0%		27,309,382	68.3%		28,433,145	73.2%		19,552,963	47.4%
Net loss adjustment expenses incurred		6,838,575	18.1%		5,889,098	14.7%		6,097,404	15.7%		9,472,893	23.0%
Other underwriting expenses		7,497,350	19.9%		7,233,717	18.1%		9,885,174	25.5%		9,527,711	23.1%
<b>Total deductions</b>		<b>41,091,994</b>	<b>109.0%</b>		<b>40,432,197</b>	<b>101.2%</b>		<b>44,415,723</b>	<b>114.4%</b>		<b>38,553,567</b>	<b>93.5%</b>
<b>Net underwriting gain/(loss)</b>		<b>(3,387,411)</b>	<b>-9.0%</b>		<b>(462,395)</b>	<b>-1.2%</b>		<b>(5,589,389)</b>	<b>-14.4%</b>		<b>2,697,816</b>	<b>6.5%</b>
Net investment income earned		6,276,780	16.6%		5,968,065	14.9%		6,266,537	16.1%		6,546,700	15.9%
Net realized gains/(losses)		7,737,999	20.5%		50,861	0.1%		(937,963)	-2.4%		(1,044,482)	-2.5%
Other income/(expenses)		(186,384)	-0.5%		(205,610)	-0.5%		(253,563)	-0.7%		(184,967)	-0.4%
Net periodic pension and postretirement benefit expense		(491,837)	-1.3%		(634,689)	-1.6%		(724,844)	-1.9%		(633,853)	-1.5%
<b>NET INCOME/(LOSS)</b>	<b>\$</b>	<b>9,949,147</b>	<b>26.4%</b>	<b>\$</b>	<b>4,716,232</b>	<b>11.8%</b>	<b>\$</b>	<b>(1,239,222)</b>	<b>-3.2%</b>	<b>\$</b>	<b>7,381,214</b>	<b>17.9%</b>



**KENTUCKY EMPLOYERS' MUTUAL INSURANCE AUTHORITY**  
2018 at a Glance

	Quarter ended <u>3/31/2018</u>	Quarter ended <u>6/30/2018</u>	Quarter ended <u>9/30/2018</u>	Quarter ended <u>12/31/2018</u>	Year ended <u>12/31/2018</u>
<b><u>Cash and Invested Assets:</u></b>					
Long-term bonds:					
U.S. government securities	\$ 71,158,929	\$ 71,141,375	\$ 79,827,115	\$ 46,685,738	\$ 46,685,738
U.S. special revenue bonds	211,721,856	210,949,482	175,401,734	154,835,632	154,835,632
U.S. agency residential mortgage-backed securities	429,687	395,996	368,025	345,357	345,357
Corporate issuer obligation bonds	406,615,069	402,773,404	426,055,326	478,384,507	478,384,507
Commercial mortgage-backed securities	55,624,732	54,263,719	51,676,481	48,266,283	48,266,283
Other loan-backed and structured securities	62,316,430	73,145,017	83,983,138	99,590,814	99,590,814
All other bonds	<u>6,605,988</u>	<u>6,595,505</u>	<u>7,823,770</u>	<u>9,913,319</u>	<u>9,913,319</u>
Total long-term bonds	814,472,691	819,264,498	825,135,589	838,021,650	838,021,650
Common stocks	59,209,064	59,103,694	71,625,433	70,699,997	70,699,997
Short-term investments	22,722,200	31,404,564	59,438,443	21,421,380	21,421,380
Operating cash balances	7,560,662	8,559,540	12,821,171	13,803,299	13,803,299
Real estate	5,020,818	5,020,818	5,020,818	5,020,818	5,020,818
Other invested assets	11,349,136	11,349,136	12,640,509	13,082,901	13,082,901
Receivables for securities	<u>104,200</u>	<u>0</u>	<u>10,020,107</u>	<u>0</u>	<u>0</u>
Total cash and invested assets	<u>\$ 920,438,771</u>	<u>\$ 934,702,250</u>	<u>\$ 996,702,070</u>	<u>\$ 962,050,045</u>	<u>\$ 962,050,045</u>
<b><u>Gross Interest and Dividends Earned:</u></b>					
Net interest and dividends earned	\$ 6,276,780	\$ 5,968,065	\$ 6,266,537	\$ 6,546,700	\$ 25,058,082
Add back interest expense on funds withheld	336,676	339,049	341,672	346,751	1,364,148
Add back investment income attributable to KCWPF	113,934	127,718	136,249	157,080	534,981
Add back investment expenses	<u>241,492</u>	<u>462,301</u>	<u>372,736</u>	<u>384,799</u>	<u>1,461,328</u>
Gross interest and dividends earned	<u>\$ 6,968,882</u>	<u>\$ 6,897,133</u>	<u>\$ 7,117,194</u>	<u>\$ 7,435,330</u>	<u>\$ 28,418,539</u>
<b><u>Direct Policy Activity:</u></b>					
Direct premiums written	\$ 38,635,070	\$ 30,785,567	\$ 50,572,276	\$ 42,772,370	\$ 162,765,283
Direct premiums earned	\$ 38,154,603	\$ 40,459,778	\$ 39,448,831	\$ 41,716,300	\$ 159,779,512
Direct commissions paid, excluding contingent	\$ 3,673,736	\$ 3,048,361	\$ 4,912,446	\$ 4,196,257	\$ 15,830,800
Direct commissions paid as a % of direct premiums written	9.51%	9.90%	9.71%	9.81%	9.73%
<b>Direct Active Policy Count</b>	<b>23,282</b>	<b>23,232</b>	<b>23,086</b>	<b>22,931</b>	<b>22,931</b>
<b><u>Direct Claim Activity:</u></b>					
Direct losses paid, net of subrogation received	\$ 17,698,941	\$ 20,970,325	\$ 19,078,398	\$ 17,396,321	\$ 75,143,985
Direct loss adjustment expenses paid, net of subrogation received	\$ 6,359,323	\$ 5,868,621	\$ 5,140,439	\$ 5,349,537	\$ 22,717,920
Direct reserve for unpaid losses, including IBNR	\$ 585,770,397	\$ 592,389,991	\$ 602,541,472	\$ 604,318,214	\$ 604,318,214
Direct reserve for unpaid loss adjustment expenses, including IBNR	\$ 44,373,926	\$ 44,252,590	\$ 45,156,797	\$ 49,355,834	\$ 49,355,834
<b>Direct Open Claim Count</b>	<b>5,357</b>	<b>5,171</b>	<b>5,121</b>	<b>5,043</b>	<b>5,043</b>