

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS'
COMPENSATION TRUST

JACKSON, MISSISSIPPI

FINANCIAL REPORT

JUNE 30, 2018



Harper, Rains, Knight & Company

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HARPER, RAINS, KNIGHT & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
RIDGELAND, MISSISSIPPI

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The Board of Trustees
Mississippi State Agencies Self-Insured
Workers' Compensation Trust
Jackson, Mississippi

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Mississippi State Agencies Self-Insured Workers' Compensation Trust (the "Trust"), a component unit of the State of Mississippi, as of and for the years ended June 30, 2018 and 2017, and the related notes to financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Trust's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified accrual basis of accounting described in Note 1; this includes determining that the modified accrual basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider internal control relevant to the Trust'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 Trust'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.

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The Board of Trustees
Mississippi State Agencies Self-Insured
Workers' Compensation Trust (continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mississippi State Agencies Self-Insured Workers' Compensation Trust, as of June 30, 2018 and 2017, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and loss development information and related notes on pages 4-6 and 26-27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

Harper, Rainie, Knight & Company, P.A.

November 9, 2018

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2018 and 2017

The following is a discussion and analysis of the financial performance of the Mississippi State Agencies Self-Insured Workers' Compensation Trust for the fiscal year ended June 30, 2018. Since Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes, and currently known facts, we encourage readers to consider the information presented here in conjunction with the Trust's basic financial statements.

Highlights

- Total liabilities for the Trust at year-end were \$38,315,000, which was a decrease of \$4,040,000, or 10%, from the prior fiscal year. Current liabilities were \$9,600,000, a decrease of \$900,000 over the 2017 amount. The long-term portion of estimated claim liabilities decreased \$3,140,000, or 10%, to \$28,715,000 at June 30, 2018. The decrease in total liabilities was a result of a decrease in the actuarially determined estimated liability for claims in the current fiscal year of \$4,040,000.
- Total assets for the Trust at year-end were \$38,315,000, which was a decrease of \$4,040,000 from the prior fiscal year. The unrestricted fund net position is reported as zero on the 2018 and 2017 balance sheets. This is a result of the Trust recording a premium deficiency receivable of \$4,424,394 as of 2018 and \$7,178,442 as of 2017, as required by Governmental Accounting Standards Board Statement No. 30. This adjustment is required for public entity risk pools when their charges to participating entities are not sufficient to cover the full cost of claims over a reasonable period of time.
- Total operating expenses increased \$2,909,028, or 38%, which relates almost exclusively to an increase in net paid and incurred claims and the change in estimate related to the State Workers' Compensation assessments reported in the prior fiscal year.
- Operating revenue increased \$2,909,028, or 38% which relates to a decrease in the premium deficiency receivable and earned contributions.
- The premium deficiency receivable decreased \$2,754,050 for the current fiscal year and is reported as a premium deficiency decrease in the operating revenues of the Trust.

Overview of Financial Statements

In accordance with the Governmental Accounting Standards Board Statement 34 (GASB 34), there are three components to the basic financial statements: 1) the government-wide financial statements, 2) the fund financial statements, and 3) the notes to the financial statements.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2018 and 2017

Government-Wide Financial Statements

The Trust is classified as governmental fund and therefore utilizes the modified accrual basis of accounting. Due to the fact that the Trust is a component unit of the State of Mississippi, government-wide statements are not included here, but instead will be included in the State of Mississippi's basic financial statements.

Fund Financial Statements

As a component unit of the State of Mississippi, the Trust only presents fund financial statements as of June 30, 2018. The financial statements of the Trust include the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance for the year ended June 30, 2018. The Balance Sheet summarizes and describes the assets, liabilities, and financial condition of the Trust. The Statement of Revenues, Expenditures and Changes in Fund Balance provides fiscal year totals for the revenues, expenditures, and resulting changes in fund balance experienced by the Trust. Each of these statements is presented to reflect the current financial status and the results of operations of the Trust as of and for the year ended June 30, 2018.

Overall Financial Position Analysis/Balances and Transactions Analysis

The Trust's assets consist primarily of investments in high quality, United States Government securities, generated from the collection of workers' compensation insurance premiums from participating State agencies, net of claims and other cash expenditures, as well as reinvested interest earnings. The Trust's liabilities represent primarily the actuarial estimation of expected claims and claims adjustment expenses, adjusted by a 4% present value discount. Unrestricted net position represents amounts receivable from participating agencies in an amount equal to the fund net deficit for each year that a deficit exists. Premium deficiency receivable may be used to provide for deviations between the actuary's estimates of future claims and the Trust's actual claims experience and to prevent and/or reduce the likelihood of future deficit assessments. Premium deficiency receivable may be funded from assessments of the participating agencies over a reasonable amount of time. During 2018, the premium deficiency receivable decreased \$2.8 million from the 2017 reported balance of \$7 million due to earned contributions and interest income in excess of realized and unrealized losses on investments and expenses.

The premium discount approved by the Board of Trustees was 25% in 2018 and 20% 2017. Operating expenses increased for the period ended June 30, 2018, the result of an increase in claims paid. Premium amounts are actuarially determined annually and are subject to moderate fluctuations. The claims and claims adjustment expenses likewise fluctuate from year to year, affected to some degree by large claims settlements, the timing of which is somewhat unpredictable.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2018 and 2017

Currently Known Facts

Senate Bill 2066, as passed by the Mississippi Legislature during the second extraordinary session in 2005, mandated a transfer in the amount of \$2.3 million from the Trust to the State of Mississippi's Budget Contingency Fund, which was made in June 2006 (fiscal year 2006). Similar to the approximately \$2.7 million transfer made in fiscal year 2005, this action placed additional pressure on premium determinations and possibly limited interest earnings and investment options. Expected claims experience will continue to be actuarially determined, with no assurances that amounts will increase, decrease, or remain the same. Effective July 1, 2004, the Trust was exempted by statute from mandatory membership in the Mississippi Self-Insured Workers' Compensation Guaranty Association. As a result, the Trust is immune from any further liability arising from assessments by the Association due to deficits occurring from and after July 1, 2004. Other than the continued inflationary trends in medical costs and litigation expenses recently experienced in the workers' compensation arena, the Trust is not aware of any other known facts that might materially impact its financial position and these financial statements.

Senate Bill 2849 took effect during fiscal year 2006, which exempts certain state agencies, including the Trust, from funding incurred but not reported claims. The Bill allows the Trust the option to establish and maintain reserves. The Trust is currently electing to fund such reserves for only the reported claims and will likely continue to do so in future years.

Senate Bill 2362, effective July 1, 2016, prohibits an agency of the state from billing other state agencies for services. The bill prevents future assessments from the Mississippi Workers' Compensation Commission for claims paid during fiscal year 2017 or for claims incurred in prior years.

Financial Contact

The Trust's financial statements are designed to present users with a general overview of its finances and to demonstrate its accountability. If you have any questions about the report or need additional information, contact the Administrator, Mississippi State Agencies Self-Insured Workers' Compensation Trust, Post Office Box 24208, Jackson, Mississippi 39225-4208.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

BALANCE SHEET
June 30, 2018 and 2017

ASSETS		
	2018	2017
Current assets		
Cash and cash equivalents	\$ 7,183,658	\$ 8,212,470
Funds held by others	896,997	1,034,467
Investments	25,620,850	25,492,935
Assessments receivable	-	276,208
Accrued interest receivable	<u>189,101</u>	<u>160,478</u>
Total current assets	33,890,606	35,176,558
 Premium deficiency receivable	 <u>4,424,394</u>	 <u>7,178,442</u>
 Total assets	 <u>\$ 38,315,000</u>	 <u>\$ 42,355,000</u>
LIABILITIES AND FUND BALANCE		
Current liabilities		
Estimated liability for claims and		
claim adjustment expenses, net - current portion	<u>\$ 9,600,000</u>	<u>\$ 10,500,000</u>
Long-term liabilities		
Estimated liability for claims and claim adjustment		
expenses, net - long-term	<u>28,715,000</u>	<u>31,855,000</u>
 Total liabilities	 38,315,000	 42,355,000
Unrestricted fund balance	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 38,315,000</u>	<u>\$ 42,355,000</u>

The Notes to Financial Statements are an integral part of these statements.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

For the year ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Earned contributions, net of reinsurance premiums	\$ 13,119,347	\$ 14,549,806
Premium deficiency decrease	(2,754,050)	(7,097,474)
Interest income	764,231	802,808
Realized and unrealized losses on investments	(650,124)	(684,764)
Total operating revenue	<u>10,479,404</u>	<u>7,570,376</u>
Operating expenditures:		
Claims paid and incurred, net of reinsurance recoveries	9,290,641	7,776,755
Administrative fees	939,003	841,369
Workers' Compensation Commission assessments	-	(1,301,439)
Risk control fees	52,087	57,174
Reimbursements to State of Mississippi for:		
Allocated expenses	142,417	149,662
Actuarial fees	9,000	7,985
Accounting and legal	19,913	14,193
Other	26,343	24,677
Total operating expenses	<u>10,479,404</u>	<u>7,570,376</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>
Transfers	<u>-</u>	<u>-</u>
Change in fund balance	-	-
Fund net balance - unrestricted, beginning	<u>-</u>	<u>-</u>
Fund net balance - unrestricted, ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The Notes to Financial Statements are an integral part of these statements.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by Mississippi State Agencies Self-Insured Workers' Compensation Trust (the "Trust") in preparing the accompanying basic financial statements are set forth below.

Organization and Operations

The Trust was established July 1, 1990 by the State of Mississippi as a group workers' compensation self-insurance trust for qualifying state agencies. The Trust administers the Mississippi State Agencies Self-Insured Workers' Compensation Pool (the "Pool"). As of June 30, 2018, ninety-nine (99) agencies of the State of Mississippi are participants in the Pool.

Basis of Presentation

Financial reporting standards for state and local governments require that financial reports include management's discussion and analysis, basic financial statements and required supplementary information. Basic financial statements include government-wide financial statements, fund financial statements and notes to the financial statements.

As a component unit of the State of Mississippi, the Trust only presents fund financial statements. Equity is classified into three categories: invested in capital assets, net of related debt; restricted net position; and unrestricted net position. Interest income and net increase in the fair value of investments, which are normally classified as non-operating revenue in most governmental funds, are classified as operating revenue since these transactions are an integral part of the Trust's ongoing operations. In addition, interest income from investments in debt securities is classified as cash flows from operations rather than cash flows from investing activities.

Change in Accounting Method and Measurement Focus

The Trust uses the current financial resources measurement focus and modified accrual basis of accounting as required by accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). Under the modified accrual basis of accounting, revenue is recognized when both measurable and available to finance expenditures to be paid within 60 days of the fiscal year-end. Expenditures are recorded when a liability is incurred, with the exception of contracted and professional fees payable within 30 days of the fiscal year-end.

The operations of the Trust are in accordance with the Trust Agreement between the State of Mississippi and the Board of Trustees of the Trust and the rules and regulations of the Trust as adopted by the Board of Trustees. Each participating agency pays an annual contribution determined by the Board of Trustees for the workers' compensation coverage provided by the Trust. The Trust pays all workers' compensation benefits, which each participating agency incurs

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

under the Workers' Compensation Laws of the State of Mississippi. Any funds in excess of the amount necessary to fund all obligations for a fund year may be refunded to the participating agencies at the discretion of the Board of Trustees with the approval of the State of Mississippi Workers' Compensation Commission ("MWCC"). A deficiency of Trust assets for a particular fund year may be funded from surplus from previous fund years, administrative funds or from assessments of the participating agencies.

Revenue Recognition

Participating agencies pay annual contributions to obtain workers' compensation coverage for each fiscal year ending June 30. The participant's coverage is continuous until cancelled. Workers' Compensation contributions are actuarially determined and are adjusted using an experience modifier based upon each participant's loss experience. Contribution revenue is recognized over the period of policy coverage, which is a one-year period which coincides with the Trust's fiscal year. Prior to July 1, 2017, contributions were adjusted as of each fiscal year based on final payroll amounts for the respective agency.

Beginning July 1, 2017, the Trust elected to utilize estimated payrolls as the basis on which to apply the actuarially determined experience modifier. Effective July 1, 2018, the Trust will begin determining contributions utilizing each agencies' previous fiscal year final payroll multiplied by the agencies' actuarially determined experience modifier to determine contribution amounts required for each agency.

During fiscal year 2016, the Trust enacted a change in policy regarding contributions made on estimated payrolls that ultimately exceeded final payroll amounts. Historically, these excess contributions were credited to the respective agencies' subsequent year contribution amounts. Effective for fiscal year 2016, the Trust elected to begin incorporating the return premiums due into the respective agencies' actuarially determined experience modifier.

The Trust considers anticipated investment income in determining if a contribution deficiency exists. Pursuant to GASB Statement No. 30 in regard to premium deficiencies, the Trust records a receivable from the participating agencies when a fund deficit will not be recovered from contributions charged to the participants over a reasonable period of time. The Trust recorded a premium deficiency decrease of \$2,754,050 in 2018 and \$7,097,474 in 2017.

Inter-fund Transfers

Inter-fund transfers represent transactions with a fund outside of the Trust. Inter-fund transactions are reflected as contribution revenue, services provided, reimbursements, or transfers. Contributions received from participating agencies are treated as revenue. Services provided are treated as expenditures, such as expenditures allocated by the Department of Finance and Administration to the Trust. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund

MISSISSIPPI STATE AGENCIES
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NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimated Liability for Claims and Claim Adjustment Expenditures

and reduces its related payable as a reimbursement. All other inter-fund transactions are treated as transfers. The estimated liability for claims is actuarially determined based on the ultimate cost of settling claims and includes the effects of inflation and other societal and economic factors.

Allocated claim adjustment expenditures are included in the estimated liability for claims by the Trust's claims administrator and its actuary. Unallocated claim adjustment expenditures are not accrued in the accompanying financial statements as the majority of these expenses are incurred as a percentage of premiums, regardless of the claims activities of the Trust. The estimated liability for claims is presented net of estimated reinsurance recoverables (as disclosed in Note 6) on a discounted basis. The Trust's actuary used a discount rate of 4 percent in computing the present value of claims liabilities for the years ended June 30, 2018 and 2017. The discounts applied to the gross liability were \$6,941,000 and \$8,418,000 at June 30, 2018 and 2017, respectively. The estimated liability for claims is comprised of the following components:

Incurred but Unpaid Claims

Incurred but unpaid claims represent claims due and an estimate of the remaining cost of reported claims. Incurred but unpaid claims before adjustment to present value were approximately \$19,994,000 at June 30, 2018 and \$21,212,000 at June 30, 2017.

Incurred but Not Reported Claims

Incurred but not reported claims represent estimated claims incurred that have not yet been reported to the Trust. The incurred but not reported claim reserve was estimated by the Trust's actuary based on pertinent loss development factors, in accordance with accepted actuarial principles. Incurred but not reported claims before adjustment for present value were \$25,262,000 at June 30, 2018 and \$29,561,000 at June 30, 2017.

Investments

Investments are stated at fair value determined by quoted market prices.

The Trust's investments are invested under the direction of a money manager. The Trust is authorized by Section 27-105-33 of the Mississippi Code of 1972 to invest in (1) certificates of deposit or interest-bearing accounts of qualified state depositories, (2) United States Treasury obligations, (3) United States Government agency instrumentality or sponsored enterprise obligations which are fully guaranteed by the government of the United States, its agencies or a sponsored enterprise, or (4) direct security repurchase agreements and reverse direct security repurchase agreements of those United States Treasury or government agency securities enumerated above.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of less than three months. Cash balances include cash in banks, cash on deposit with the Treasurer of the State of Mississippi and money market mutual funds.

Equity in internal investment pool is cash equity with the Treasurer and consists of pooled demand deposits and investments recorded at fair value. Cash and cash equivalents include bank accounts, petty cash, money market demand accounts, money market mutual funds and certificates of deposit with a maturity date within ninety (90) days of the date acquired by the State.

The money market mutual funds of \$338,291 and \$519,645 as of June 30, 2018 and 2017, respectively, were held in uncollateralized custodial accounts.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates used in preparing these financial statements include those assumed in determining the estimated liability for claims including reinsurance recoverable on unpaid claims. It is at least reasonably possible that the significant estimates used will change within the next year.

Credit Risk

Financial instruments that are subject to credit risk are principally investments and cash and cash equivalents. The Trust invests primarily in United States Government securities and securities guaranteed by the United States Government and its agencies. Cash balances are primarily held by the Treasurer of the State of Mississippi.

Uncertainty

Established by the State of Mississippi, the operations of the Trust are subject to state laws and regulations which are subject to change by an act of the Mississippi Legislature.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

Subsequent events were evaluated by the Trust through November 9, 2018, which is the date the financial statements were available to be issued.

NOTE 2 • INVESTMENTS

All securities held by the Trust are held in uncollateralized custodial accounts.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. One of the ways that the Trust manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

These investments do not have terms such as call options or variable interest rate features which cause their fair value to be highly sensitive to interest rate changes. The Trust invests in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

For investments not of or guaranteed by the U. S. Government, the investment's credit rating was obtained from Moody's Corporation. Investments for which a rating was not available are designated as not rated ("NR"). Investment credit ratings for foreign investments, with the exception of Aid-Israel, were "NR". Aid-Israel was rated Aaa.

As of June 30, 2018, the Trust had the following investments:

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>U. S. Government:</u>				
U. S. Treasury Note	\$ 1,346,101	\$ 1,256,053	2.500%	August 15, 2023
U. S. Treasury Note	<u>1,393,750</u>	<u>1,397,142</u>	1.500%	August 15, 2026
	<u>2,739,851</u>	<u>2,653,195</u>		

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 2 • INVESTMENTS (continued)

	Carrying Value	Fair Value	Interest Rate	Maturity Date
Agencies of				
<u>U. S. Government:</u>				
Housing and Urban				
Development	\$ 263,318	\$ 250,680	4.620%	August 1, 2018
Small Business Administration	2,526	2,419	5.500%	October 1, 2018
Small Business Administration	20,678	20,063	3.880%	March 1, 2019
Small Business Administration	13,885	13,919	3.310%	May 1, 2019
Small Business Administration	20,989	20,323	6.800%	June 1, 2019
Small Business Administration	79,832	78,065	3.190%	July 1, 2019
Small Business Administration	32,647	29,842	7.060%	August 1, 2019
Small Business Administration	6,404	6,015	7.300%	November 1, 2019
Small Business Administration	57,508	54,973	2.860%	March 1, 2020
Small Business Administration	9,982	8,585	7.630%	June 9, 2020
Small Business Administration	497,329	490,636	3.215%	September 1, 2020
Small Business Administration	87,669	86,939	3.220%	September 1, 2020
Small Business Administration	14,689	13,464	7.220%	November 1, 2020
Small Business Administration	144,048	135,722	6.340%	March 1, 2021
Small Business Administration	287,713	279,335	2.877%	September 1, 2021
Small Business Administration	528,523	515,300	2.766%	March 10, 2022
Small Business Administration	162,042	158,834	1.240%	May 1, 2022
Small Business Administration	104,393	99,209	5.310%	August 1, 2022
Small Business Administration	337,059	327,699	2.245%	September 10, 2022
Small Business Administration	159,353	154,623	1.010%	November 1, 2022
Small Business Administration	174,851	169,375	1.110%	January 1, 2023
Small Business Administration	618,951	603,566	2.351%	March 10, 2023
Small Business Administration	380,008	369,512	1.100%	May 1, 2023
Small Business Administration	177,768	176,177	4.350%	July 1, 2023
Small Business Administration	95,006	94,000	5.240%	August 1, 2023
Small Business Administration	512,999	496,952	3.644%	September 10, 2023
Small Business Administration	87,423	87,088	4.920%	October 1, 2023
Small Business Administration	218,670	212,338	1.880%	November 1, 2023
Small Business Administration	160,161	156,554	1.980%	January 1, 2024

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 2 • INVESTMENTS (continued)

	Carrying Value	Fair Value	Interest Rate	Maturity Date
Agencies of				
<u>U. S. Government (continued):</u>				
Small Business Administration	\$ 470,405	\$ 459,569	3.191%	March 10, 2024
Small Business Administration	146,992	142,834	2.140%	May 1, 2024
Small Business Administration	429,939	415,767	5.180%	May 1, 2024
Small Business Administration	109,790	108,136	5.520%	June 1, 2024
Small Business Administration	546,472	531,752	3.015%	September 10, 2024
Small Business Administration	107,400	106,218	4.860%	October 1, 2024
Small Business Administration	331,113	323,686	2.030%	November 1, 2024
Small Business Administration	579,136	548,306	2.517%	March 10, 2025
Small Business Administration	128,593	124,768	5.110%	August 1, 2025
Small Business Administration	399,507	392,103	2.830%	September 10, 2025
Small Business Administration	350,421	338,394	1.660%	November 1, 2025
Small Business Administration	399,015	386,047	1.800%	January 1, 2026
Small Business Administration	404,805	392,086	1.840%	March 1, 2026
Small Business Administration	380,236	369,627	2.170%	November 1, 2026
Small Business Administration	469,778	462,952	2.630%	March 1, 2027
Small Business Administration	501,804	495,400	2.845%	March 10, 2027
Small Business Administration	484,009	482,005	5.490%	March 1, 2028
Small Business Administration	290,000	291,633	3.180%	May 1, 2028
Small Business Administration	455,010	440,832	2.520%	September 10, 2027
Small Business Administration	645,000	642,278	3.190%	March 10, 2028
Freddie Mac Multifamily				
Securitization	340,303	331,062	2.535%	November 25, 2035
Federal Home Loan				
Mortgage Corporation	480,056	472,386	2.323%	October 25, 2018
Federal Home Loan				
Mortgage Corporation	337,461	329,816	2.180%	September 1, 2023
Federal Home Loan				
Mortgage Corporation	218,278	199,701	7.645%	May 1, 2025
Federal National				
Mortgage Association	208,287	205,453	4.940%	May 1, 2019

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 2 • INVESTMENTS (continued)

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies of U. S. Government (continued):				
Federal National Mortgage Association	\$ 182,521	\$ 172,755	4.879%	July 1, 2019
Federal National Mortgage Association	103,271	100,805	4.794%	October 1, 2019
Federal National Mortgage Association	219,629	214,695	4.523%	November 1, 2019
Federal National Mortgage Association	246,105	240,464	4.601%	April 1, 2020
Federal National Mortgage Association	48,416	45,831	4.475%	June 1, 2020
Federal National Mortgage Association	262,154	244,057	4.086%	September 1, 2020
Federal National Mortgage Association	260,928	241,108	3.330%	October 1, 2020
Federal National Mortgage Association	387,469	388,934	3.000%	May 1, 2024
Federal National Mortgage Association	395,872	378,104	2.000%	September 1, 2026
Federal National Mortgage Association	398,018	389,976	3.500%	September 1, 2042
Government National Mortgage Association	158,317	150,031	3.000%	January 20, 2027
Government National Mortgage Association	141,963	139,312	2.150%	May 16, 2039
Government National Mortgage Association	389,179	380,993	1.900%	March 16, 2040
Government National Mortgage Association	280,580	275,170	1.950%	February 16, 2044
Government National Mortgage Association	199,714	192,443	2.500%	December 16, 2044
	<u>18,144,370</u>	<u>17,659,696</u>		

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 2 • INVESTMENTS (continued)

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Investments backed by full faith and credit of <u>U. S. Government:</u>				
New Valley Generation V	\$ 275,022	\$ 257,675	4.930%	January 15, 2021
Matson Navigation Co.	230,844	220,496	5.273%	July 29, 2029
Private Export Funding	684,450	633,603	4.300%	December 15, 2021
Private Export Funding	<u>507,317</u>	<u>509,019</u>	2.450%	July 15, 2024
	<u>1,697,633</u>	<u>1,620,793</u>		
<u>Foreign Investments:</u>				
Ukraine Cabinet	601,421	596,688	1.844%	May 16, 2019
Hashemite	251,162	248,695	1.945%	June 23, 2019
Aid-Tunisia	274,000	271,471	1.686%	July 16, 2019
Hashemite	607,522	597,378	2.503%	October 30, 2020
Hashemite	408,290	396,384	3.000%	June, 30 2025
Aid-Israel	590,862	562,835	5.500%	September 18, 2023
Amal LTD	125,400	116,056	3.465%	August 21, 2021
Aid-Israel	594,395	565,200	5.500%	December 4, 2023
Aid-Israel	127,319	123,850	5.500%	December 4, 2023
Lulwa LTD	<u>216,851</u>	<u>208,609</u>	1.888%	February 15, 2025
	<u>3,797,222</u>	<u>3,687,166</u>		
Total investments	<u>\$ 26,379,076</u>	<u>\$ 25,620,850</u>		

As of June 30, 2017, the Trust had the following investments:

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>U. S. Government:</u>				
U. S. Treasury Note	\$ 1,313,511	\$ 1,296,937	1.500%	August 31, 2018
U. S. Treasury Note	<u>1,352,702</u>	<u>1,304,415</u>	2.500%	August 15, 2023
	<u>2,666,213</u>	<u>2,601,352</u>		

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 2 • INVESTMENTS (continued)

Agencies of
U. S. Government:
Housing and Urban

Development	\$ 277,260	\$ 258,590	4.620%	August 1, 2018
Housing and Urban				
Development	303,843	300,114	1.540%	August 1, 2017
Small Business Administration	4,004	3,745	5.120%	November 1, 2017
Small Business Administration	12,827	12,144	6.600%	November 1, 2017
Small Business Administration	8,947	8,597	5.500%	October 1, 2018
Small Business Administration	41,934	41,012	3.880%	March 1, 2019
Small Business Administration	37,875	38,179	3.310%	May 1, 2019
Small Business Administration	18,967	18,367	6.800%	June 1, 2019
Small Business Administration	161,729	159,336	3.190%	July 1, 2019
Small Business Administration	68,822	63,913	7.060%	August 1, 2019
Small Business Administration	13,853	13,221	7.300%	November 1, 2019
Small Business Administration	108,547	104,674	2.860%	March 1, 2020
Small Business Administration	15,262	13,334	7.630%	June 9, 2020
Small Business Administration	305,056	303,090	3.215%	September 1, 2020
Small Business Administration	22,931	21,407	7.220%	November 1, 2020
Small Business Administration	228,996	220,821	6.340%	March 1, 2021
Small Business Administration	430,256	429,833	2.877%	September 1, 2021
Small Business Administration	459,265	455,523	2.766%	March 10, 2022
Small Business Administration	159,272	157,911	1.240%	May 1, 2022
Small Business Administration	62,393	59,227	5.310%	August 1, 2022
Small Business Administration	367,919	365,423	2.245%	September 10, 2022
Small Business Administration	199,970	197,035	1.010%	November 1, 2022
Small Business Administration	266,768	263,225	1.110%	January 1, 2023
Small Business Administration	558,077	558,477	2.351%	March 10, 2023
Small Business Administration	484,855	479,823	1.100%	May 1, 2023
Small Business Administration	438,009	433,606	3.644%	September 10, 2023
Small Business Administration	378,503	374,908	1.880%	November 1, 2023
Small Business Administration	206,914	206,955	1.980%	January 1, 2024
Small Business Administration	507,682	503,400	3.191%	March 10, 2024
Small Business Administration	174,710	173,414	2.140%	May 1, 2024
Small Business Administration	289,825	280,575	5.180%	May 1, 2024

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 2 • INVESTMENTS (continued)

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies of				
<u>U. S. Government (continued):</u>				
Small Business Administration	\$ 624,701	\$ 622,431	3.015%	September 10, 2024
Small Business Administration	393,086	393,322	2.030%	November 1, 2024
Small Business Administration	633,789	620,946	2.517%	March 10, 2025
Small Business Administration	167,899	167,526	5.110%	August 1, 2025
Small Business Administration	423,196	418,664	1.660%	November 1, 2025
Small Business Administration	446,682	443,707	1.800%	January 1, 2026
Small Business Administration	476,349	473,400	1.840%	March 1, 2026
Small Business Administration	437,934	436,888	2.170%	November 1, 2026
Small Business Administration	516,000	520,551	2.630%	March 1, 2027
Small Business Administration	275,000	278,850	2.845%	March 10, 2027
Freddie Mac Multifamily				
Securitization	381,329	379,929	2.535%	November 25, 2035
Federal Home Loan				
Mortgage Corporation	503,206	500,316	2.323%	October 25, 2018
Federal Home Loan				
Mortgage Corporation	240,948	231,995	7.645%	May 1, 2025
Federal National				
Mortgage Association	212,851	217,899	4.940%	May 1, 2019
Federal National				
Mortgage Association	229,360	225,628	4.879%	July 1, 2019
Federal National				
Mortgage Association	147,041	148,387	4.794%	October 1, 2019
Federal National				
Mortgage Association	298,083	302,022	4.523%	November 1, 2019
Federal National				
Mortgage Association	272,692	275,262	4.601%	April 1, 2020
Federal National				
Mortgage Association	195,307	191,104	4.475%	June 1, 2020
Federal National				
Mortgage Association	292,677	281,822	4.086%	September 1, 2020
Federal National				
Mortgage Association	266,896	254,543	3.330%	October 1, 2020

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 2 • INVESTMENTS (continued)

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies of				
<u>U. S. Government (continued):</u>				
Federal National				
Mortgage Association	\$ 301,600	\$ 296,412	2.980%	January 1, 2025
Federal National				
Mortgage Association	489,111	480,574	2.000%	September 1, 2026
Federal National				
Mortgage Association	45,252	46,417	4.500%	October 1, 2040
Federal National				
Mortgage Association	298,246	291,294	3.000%	September 1, 2042
Federal National				
Mortgage Association	317,494	313,760	3.500%	September 1, 2042
Federal National				
Mortgage Association	431,233	432,861	3.000%	July 1, 2043
Federal National				
Mortgage Association	275,997	270,129	4.000%	January 1, 2046
Government National				
Mortgage Association	204,989	200,924	3.000%	January 20, 2027
Government National				
Mortgage Association	184,299	183,742	1.700%	August 16, 2033
Government National				
Mortgage Association	155,908	154,492	2.150%	May 16, 2039
Government National				
Mortgage Association	475,736	469,350	1.900%	March 16, 2040
Government National				
Mortgage Association	47,147	46,626	2.534%	March 16, 2041
Government National				
Mortgage Association	109,583	107,906	2.375%	February 20, 2043
Government National				
Mortgage Association	358,840	357,321	1.950%	February 16, 2044
Government National				
Mortgage Association	260,856	256,107	2.500%	December 16, 2044
	<u>18,006,588</u>	<u>17,812,986</u>		

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 2 • INVESTMENTS (continued)

Investments backed by
full faith and credit of

U. S. Government:

New Valley Generation V	\$ 345,173	\$ 332,843	4.930%	January 15, 2021
Private Export Funding	506,090	526,827	2.450%	July 15, 2024
Private Export Funding	<u>515,400</u>	<u>471,216</u>	4.300%	December 15, 2021
	<u>1,366,663</u>	<u>1,330,886</u>		

Foreign Investments:

Ukraine Cabinet	602,820	604,614	1.844%	May 16, 2019
Hashemite	252,308	251,948	1.945%	June 23, 2019
Aid-Tunisia	274,000	274,597	1.686%	July 16, 2019
Hashemite	610,422	614,010	2.503%	October 30, 2020
Hashemite	408,784	418,324	3.000%	June, 30 2025
Aid-Israel	598,555	595,280	5.500%	September 18, 2023
Amal LTD	161,366	152,201	3.465%	August 21, 2021
Aid-Israel	610,505	594,390	5.500%	December 4, 2023
Lulwa LTD	<u>246,637</u>	<u>242,347</u>	1.888%	February 15, 2025
	<u>3,765,397</u>	<u>3,747,711</u>		
Total investments	<u>\$ 25,804,861</u>	<u>\$ 25,492,935</u>		

NOTE 3 • FAIR VALUE MEASUREMENTS

Accounting standards related to fair value measurements provide a framework for measuring fair value under accounting principles generally accepted in the United States of America. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are described as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.
- Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 3 • FAIR VALUE MEASUREMENTS (continued)

by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

The fair value of obligations of the U. S. government, agencies of the government, and foreign investments is based on an evaluation of at least two or more bid prices and/or active trades of the same security which was reported by recognized broker dealers.

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U. S. Government	\$ -	\$ 2,653,195	\$ -	\$ 2,653,195
Agencies of U. S. Government	-	17,659,696	-	17,659,696
Investments backed by full faith and credit of U. S. Government	-	1,620,793	-	1,620,793
Foreign investments	<u>-</u>	<u>3,687,166</u>	<u>-</u>	<u>3,687,166</u>
Total investments at fair value	<u>\$ -</u>	<u>\$ 25,620,850</u>	<u>\$ -</u>	<u>\$ 25,620,850</u>

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2017:

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 3 • FAIR VALUE MEASUREMENTS (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U. S. Government	\$ -	\$ 2,601,352	\$ -	\$ 2,601,352
Agencies of U. S. Government	-	17,812,986	-	17,812,986
Investments backed by full faith and credit of U. S. Government	-	1,330,886	-	1,330,886
Foreign investments	<u>-</u>	<u>3,747,711</u>	<u>-</u>	<u>3,747,711</u>
Total investments at fair value	<u>\$ -</u>	<u>\$ 25,492,935</u>	<u>\$ -</u>	<u>\$ 25,492,935</u>

NOTE 4 • ESTIMATED LIABILITY FOR CLAIMS

As discussed in Note 1, the Trust established a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related allocated claims adjustment expenses. The following represents changes in those liabilities (rounded) during the past two years:

	<u>2018</u>	<u>2017</u>
Estimated liability for claims and claims adjustment expenses, beginning	\$ 42,355,000	\$ 46,776,000
Incurred claims and claims adjustment expenses:		
Provision for insured events of current year	14,200,000	15,250,000
Decrease in provision for insured events of prior years	<u>(6,386,000)</u>	<u>(6,143,000)</u>
Total incurred claims and claims adjustment expenses before present value adjustment	<u>7,814,000</u>	<u>9,107,000</u>
Claims and claims adjustment expenses paid during the year:		
Attributable to insured events of current year	(3,555,000)	(3,394,000)
Attributable to insured events of prior years	<u>(9,776,000)</u>	<u>(8,804,000)</u>
Total claims and claim adjustment expenses paid	<u>(13,331,000)</u>	<u>(12,198,000)</u>

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 4 • ESTIMATED LIABILITY FOR CLAIMS (continued)

	2018	2017
Present value adjustment	\$ 1,477,000	\$ (1,330,000)
Estimated liability for claims and claims adjustment expenses, ending	\$ 38,315,000	\$ 42,355,000

The decrease in the provision of insured events of prior years for 2018 and 2017 is the result of better-than-anticipated claims experience in recent years. Actuarial assumptions can be significantly affected by changes in claim payment patterns.

NOTE 5 • ADMINISTRATIVE CONTRACTS

The Trust contracts with a service bureau for claims administration and risk control consulting services. Administrative and risk control consulting fees under this contract amounted to \$939,003 and \$52,087, respectively, for the year ended June 30, 2018. Administrative and risk control consulting fees amounted to \$841,369 and \$57,174, respectively, for the year ended June 30, 2017. Funds held in escrow for the future payments of claims amounted to \$896,997 and \$1,034,467 as of June 30, 2018 and 2017, respectively.

NOTE 6 • REINSURANCE

In accordance with general practice in the insurance industry, the Trust reinsures portions of its workers' compensation insurance risk under excess loss insurance. Depending upon the date of loss, the reinsurance policies cover losses exceeding \$2,000,000 and \$2,000,000 for 2018 and 2017, respectively, per accident for individual claims limited to the statutory workers' compensation limit per accident. Reinsurance premiums for the years ended June 30, 2018 and 2017 were \$362,791 and \$465,189, respectively. During 2018 and 2017, reinsurance recoveries amounted to \$396,148 and \$1,144,139, respectively. The estimated liability for claims and claim adjustment expenses has been decreased for estimated amounts recoverable on excess loss reinsurance of \$12,962,032 at June 30, 2018 and \$12,073,786 at June 30, 2017.

Reinsurance does not discharge the Trust from liability to the policyholder. Failure of the reinsurer to honor its obligation could result in losses to the Trust.

NOTE 7 • RELATED PARTIES

All of the contributions received by the Trust are from agencies of the State of Mississippi. The State of Mississippi's Department of Finance and Administration ("DFA") periodically pays expenses for the Trust and is reimbursed for these expenses. The expenses are for actuarial fees, accounting and

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 7 • RELATED PARTIES (continued)

legal fees, supplies, administrative expenses, personnel costs and other items. Reimbursements of these expenses for the years ended June 30, 2018 and 2017 amounted to \$142,417 and \$149,662, respectively.

The administrative expenses above include an allocation of the costs of employees of DFA whose time is allocated to the Trust, as well as other funds. The employees of DFA are covered by the State of Mississippi Public Employee Retirement System ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the Mississippi State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

NOTE 8 • CONTINGENT LIABILITIES

The Trust is involved in numerous legal actions arising from normal Workers' Compensation claims administration. Provision has been made in the estimated liability for claims and claim adjustment expenses for the costs of these actions. Management is of the opinion that any liability in these matters beyond that provided for will not have a material effect on the financial statements.

NOTE 9 • SIGNIFICANT AGENCIES

During 2018 and 2017, contributions from the Department of Mental Health represented 37 percent and 36 percent, respectively, of total contributions.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

Loss Development Information (Unaudited)
Fiscal and Policy Year Ended (In Thousands of Dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Net earned required contribution and investment revenues	\$ 14,120	\$ 15,038	\$ 15,075	\$ 17,083	\$ 16,703	\$ 17,064	\$ 15,266	\$ 15,713	\$ 14,668	\$ 13,233
2. Unallocated expenses	1,157	1,178	1,259	1,197	1,332	1,256	1,253	1,219	(206)	1,189
3. Gross estimated incurred claims and expenses	15,500	14,000	16,500	14,600	13,000	13,500	13,500	14,500	15,250	14,200
Losses assumed by excess loss reinsurer	-	-	-	-	-	-	-	-	-	-
Net estimated incurred claims and expenses	15,500	14,000	16,500	14,600	13,000	13,500	13,500	14,500	15,250	14,200
4. Paid (cumulative) as of:										
End of policy year	3,869	3,686	3,410	3,344	2,976	2,577	3,486	3,423	3,394	3,555
One year later	7,343	7,990	7,052	6,770	6,356	6,252	6,889	7,273	7,921	
Two years later	9,116	10,822	9,031	8,216	8,079	8,112	8,706	8,614		
Three years later	10,390	12,497	10,306	9,156	9,393	8,954	9,590			
Four years later	11,290	13,335	11,262	10,128	10,061	9,445				
Five years later	11,662	14,261	12,031	10,379	10,638					
Six years later	12,185	14,652	12,392	10,581						
Seven years later	12,296	14,859	12,733							
Eight years later	12,359	14,995								
Nine years later	12,435									
5. Re-estimated losses assumed by excess loss reinsurers	-	-	-	-	-	-	-	-	-	-
6. Re-estimated incurred claims and expenses:										
End of policy year	16,500	16,500	17,000	17,000	16,500	17,000	16,000	15,000	15,250	14,200
One year later	16,500	19,000	19,000	16,500	16,000	15,000	15,500	15,000	14,750	
Two years later	15,500	19,000	16,500	16,000	14,500	15,000	14,500	13,500		
Three years later	15,500	19,000	15,000	14,000	14,500	13,500	13,500			
Four years later	15,100	17,500	15,000	14,000	13,500	12,000				
Five years later	14,750	17,000	15,000	13,000	12,800					
Six years later	14,250	17,000	14,600	12,500						
Seven years later	14,250	16,500	14,600							
Eight years later	14,000	16,500								
Nine years later	13,750									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	(2,750)	-	(2,400)	(4,500)	(3,700)	(5,000)	(2,500)	(1,500)	(500)	-

See Note to Supplementary Information.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTE TO SUPPLEMENTARY INFORMATION
Years Ended June 30, 2018 and 2017

The preceding table illustrates how the Trust's earned revenues (net of reinsurance) and investment income compare to related cost of losses (net of losses assumed by reinsurers) and other expenses incurred by the Trust as of the end of each of the last ten years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's earned contributions and investment revenues.
2. This line shows each fiscal year's other operating costs of the Trust, including overhead and claims expense not allocable to individual claims.
3. This line shows the Trust's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section of ten rows shows the cumulative amounts paid as of the end of successive years for each policy year.
5. This line represents the re-estimated amount for losses assumed by excess insurers or reinsurers based on information available as of the end of the most current year.
6. This section of ten rows shows how each policy year's incurred claims (net of reinsurance) increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
7. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.



Harper, Rains, Knight & Company

The Board of Trustees
Mississippi State Agencies Self-Insured
Workers' Compensation Trust
Jackson, Mississippi

Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mississippi State Agencies Self-insured Workers' Compensation Trust (the "Trust"), a component unit of the State of Mississippi, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Trust's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

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The Board of Trustees
Mississippi State Agencies Self-Insured
Workers' Compensation Trust – (continued)

Internal Control Over Financial Reporting (continued)

any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's, a component unit of the State of Mississippi, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi State Agencies Self-Insured Workers' Compensation Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harper, Rains, Knight & Company, P.A.

November 9, 2018