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MISSISSIPPI STATE AGENCIES  
SELF-INSURED WORKERS'  
COMPENSATION TRUST

JACKSON, MISSISSIPPI

FINANCIAL REPORT

JUNE 30, 2012

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

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## HARPER, RAINS, KNIGHT & COMPANY

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

### Independent Auditors' Report

We have audited the accompanying basic financial statements of the Mississippi State Agencies Self-Insured Workers' Compensation Trust, a component unit of the State of Mississippi, as of June 30, 2012 and 2011, and for the years ended, as listed in the table of contents. These financial statements are the responsibility of the Mississippi State Agencies Self-Insured Workers' Compensation Trust's board of trustees. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audits provide a reasonable basis for our opinion.

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, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2012 on our consideration of the Mississippi State Agencies Self-Insured Workers' Compensation 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 and should be considered in assessing the results of our audits.

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and loss development information and related notes 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 considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, 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 evidence sufficient to express an opinion or provide any assurance.

*Harper, Rouns, Knight & Company, P.A.*

October 2, 2012

MISSISSIPPI STATE AGENCIES  
SELF-INSURED WORKERS' COMPENSATION TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. 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 \$53,702,396, which was an increase of \$959,375, or 1.82%, from the prior fiscal year. Current liabilities were \$15,333,540, an increase of \$273,959 over the 2011 amount. The long-term portion of estimated claim liabilities increased \$651,000, or 1.76%, to \$37,447,000 at June 30, 2012.
- Total assets for the Trust at year end were \$53,702,396, which was an increase of \$959,375 from the prior fiscal year. The unrestricted net deficit is reported a zero on the 2012 and 2011 balance sheets. This is a result of the Trust recording a premium deficiency receivable of \$26,517,429 as of 2012 and \$26,911,020 as of 2011, as required by Governmental Accounting Standards Board Statement No. 30. This adjustment is required for risk financing internal service funds when their charges to participating entities are not sufficient to cover the full cost of claims over a reasonable period of time.
- Total expenses decreased \$4,135,667, or 20%, which almost exclusively relates to a decrease in net paid and incurred claims from the prior fiscal year.
- Operating revenue decreased \$25,297,125, which relates to the premium deficiency receivable accrued in the prior fiscal year of \$26,911,020.
- The premium deficiency receivable decreased \$393,591 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.

Government-Wide Financial Statements

The Trust is classified as an internal service fund and therefore utilizes the 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.

MISSISSIPPI STATE AGENCIES  
SELF-INSURED WORKERS' COMPENSATION TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Fund Financial Statements

As a component unit of the State of Mississippi, the Trust only presents fund financial statements. The financial statements for the Trust include a Balance Sheet, a Statement of Revenues, Expenses and Changes in Fund Net Deficit, and a Statement of Cash Flows. The Balance Sheet summarizes and describes the assets, liabilities, and financial condition of the Trust. The Statement of Revenues, Expenses and Changes in Fund Net Deficit provides fiscal year totals for the revenues, expenses, and resulting changes in net assets experienced by the Trust. The Statement of Cash Flows summarizes the receipts, payments, and transfers by category (operating, investing, financing, and non-capital financing) in and out of the Trust. Each of these three statements is presented to reflect the current financial status and the results of operations of the Trust as of and for the years ended June 30, 2012 and 2011.

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 assets/deficit represents the amount of the Trust's reserves greater than/less than the estimated claims and expense liabilities. Unrestricted net assets 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. Unrestricted net deficits may be funded from assessments of the participating agencies.

Operating revenues increased significantly for the period ended June 30, 2012, primarily the result of recording the premium deficiency receivable. The premium discount approved by the Board of Trustees was 5% in 2012 and 15% in 2011. Operating expenses decreased for the period ended June 30, 2012, the result of a decrease in the change in the claims reserve liability. Premium amounts are actuarially determined annually and are subject to moderate fluctuation. 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. The legislatively mandated non-operating transfer of approximately \$2.3 million made in fiscal year 2006 placed the Trust's unrestricted net assets in a further deficit and negatively impacted the Trust's investment earning potential for fiscal years 2011 and 2012, but had no impact on its ability to meet its current obligations. The longer term affect of this transfer will more likely be seen in future premium increases and/or smaller premium discounts being passed on to the member agencies.

MISSISSIPPI STATE AGENCIES  
SELF-INSURED WORKERS' COMPENSATION TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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.

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 SHEETS  
June 30, 2012 and 2011

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents	\$ 3,205,724	\$ 1,566,750
Funds held by others	453,112	394,753
Investments	22,935,325	23,261,891
Assessments receivable	346,288	279,983
Accrued interest receivable	118,614	151,710
Other assets	125,904	176,914
Total current assets	27,184,967	25,832,001
 Premium deficiency receivable	 26,517,429	 26,911,020
 Total assets	 \$ 53,702,396	 \$ 52,743,021

LIABILITIES AND NET DEFICIT

Current liabilities		
Estimated liability for claims and claim adjustment expenses - current portion	\$ 14,100,000	\$ 13,800,000
Return contributions due	787,092	818,366
Accrued expenses:		
State workers' compensation assessments - current portion	347,219	334,000
Administrative fees and other	99,229	107,215
Total current liabilities	15,333,540	15,059,581
Long-term liabilities		
Estimated liability for claims and claim adjustment expenses - long-term	37,447,000	36,796,000
State workers' compensation assessments - long-term	921,856	887,440
	38,368,856	37,683,440
 Total liabilities	53,702,396	52,743,021
 Fund net deficit - unrestricted	 -	 -
 Total liabilities and fund net deficit	 \$ 53,702,396	 \$ 52,743,021

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

MISSISSIPPI STATE AGENCIES  
SELF-INSURED WORKERS' COMPENSATION TRUST

STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET DEFICIT  
Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Earned contributions, net of reinsurance premiums	\$ 15,997,526	\$ 14,452,437
Premium deficiency increase (decrease)	(393,591)	26,911,020
Interest income	819,396	889,903
Realized and unrealized gains (losses) on investments	266,021	(266,883)
Total operating revenue	16,689,352	41,986,477
Operating expenses:		
Claims paid and incurred, net of reinsurance recoveries	15,492,841	19,565,933
Administrative fees	800,379	781,992
Workers' Compensation Commission assessments	240,388	303,772
Risk control fees	29,413	29,704
Reimbursements to State of Mississippi for:		
Allocated expenses	84,179	79,258
Actuarial fees	7,885	8,000
Accounting and legal	13,066	10,700
Other	21,201	45,660
Total operating expenses	16,689,352	20,825,019
Operating gain	-	21,161,458
Transfers	-	-
Increase in fund net deficit	-	21,161,458
Fund net deficit - unrestricted, beginning	-	(21,161,458)
Fund net deficit - unrestricted, ending	\$ -	\$ -

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

MISSISSIPPI STATE AGENCIES  
SELF-INSURED WORKERS' COMPENSATION TRUST

STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from participating agencies	\$ 15,899,947	\$ 14,527,073
Receipts from reinsurance recoveries	741,793	651,315
Receipts of interest on investments	852,492	905,016
Payments for claims	(15,283,634)	(14,318,248)
Transfers to claims administrator in excess (shortage) of claims	(58,359)	155,462
Payments to suppliers for services	(1,030,851)	(1,050,293)
Payments for interfund services	(75,000)	(100,000)
Net cash provided by operating activities	<u>1,046,388</u>	<u>770,325</u>
Cash flows from investing activities:		
Investments acquired	(9,145,854)	(9,242,306)
Proceeds from investments sold or called	9,738,440	5,091,892
Net cash provided (used) by investing activities	<u>592,586</u>	<u>(4,150,414)</u>
Increase (decrease) in cash and cash equivalents	1,638,974	(3,380,089)
Cash and cash equivalents, beginning	<u>1,566,750</u>	<u>4,946,839</u>
Cash and cash equivalents, ending	<u>\$ 3,205,724</u>	<u>\$ 1,566,750</u>

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

MISSISSIPPI STATE AGENCIES  
 SELF-INSURED WORKERS' COMPENSATION TRUST

STATEMENTS OF CASH FLOWS - Continued  
 Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating gain to net cash provided by operating activities:		
Operating gain	\$ -	\$ 21,161,458
Adjustments to reconcile operating gain to net cash provided by operating activities:		
Realized and unrealized investment losses (gains)	(266,021)	266,883
Net effect of changes in assets and liabilities:		
Estimated liability for claims and claim adjustment expenses	951,000	5,899,000
Change in funds held by others	(58,359)	155,462
Accrued interest receivable	33,096	15,113
Assessments receivable	(66,305)	46,810
Premium deficiency receivable	393,591	(26,911,020)
Other assets	51,010	(20,742)
Return contributions due	(31,274)	27,826
Accrued expenses	39,650	129,535
Net cash provided by operating activities	\$ 1,046,388	\$ 770,325

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

## NOTES TO FINANCIAL STATEMENTS

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by Mississippi State Agencies Self-Insured Workers' Compensation Trust (hereafter referred to as 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 (hereafter referred to as the "Pool"). As of June 30, 2012, approximately 100 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 capital assets, net of related debt; restricted net assets; and unrestricted net assets. Interest income and net increase in the fair value of investments, which are normally classified as non-operating revenue in most proprietary 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.

#### Accounting Method and Measurement Focus

The Trust uses the flow of economic resources measurement focus and maintains its accounting records under the 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 (hereafter referred to as "GASB"). The Trust also applies all applicable accounting and financial reporting standards of the Accounting Standards Codification.

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 under the Workers' Compensation Law of the State of

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting Method and Measurement Focus - continued

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. A deficiency of Trust assets for a particular fund year may be funded from surpluses 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. The Pool 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 \$393,591 in 2012 and an increase of \$26,911,020 in 2011.

Interfund Transactions

Interfund transactions represent transactions with a fund outside of the Trust. Interfund 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 expenses, such as expenses allocated by the Department of Finance and Administration to the Trust. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related payable as a reimbursement. All other interfund transactions are treated as transfers.

Estimated Liability for Claims and Claim Adjustment Expenses

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 expenses are included in the estimated liability for claims by the Trust's claims administrator and its actuary. Unallocated claim adjustment expenses 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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimated Liability for Claims and Claim Adjustment Expenses - continued

The estimated liability for claims is presented 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, 2012 and 2011. The discount applied to the gross liability was \$6,865,000 and \$6,800,000 at June 30, 2012 and 2011, 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 \$32,229,000 at June 30, 2012 and \$33,104,000 at June 30, 2011.

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 \$26,183,000 at June 30, 2012 and \$24,292,000 at June 30, 2011.

Income Taxes

The Trust is exempt from income tax under Section 115 of the Internal Revenue Code.

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.

(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.

The money market mutual funds of \$1,479,657 and \$117,812 as of June 30, 2012 and 2011, 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, the liability for state workers' compensation assessments and the allocation of administrative and other expenses from the State of Mississippi Department of Finance and Administration. 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.

Subsequent Events

Subsequent events were evaluated by the Trust through October 2, 2012, which is the date the financial statements were available to be issued.

(2) INVESTMENTS

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

(2) INVESTMENTS - Continued

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.

As of June 30, 2012 and 2011, all corporate bonds were rated Aaa by Moody's Corporation, a nationally recognized statistical rating organization (NRSRO).

As of June 30, 2012, 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	\$ 1,006,797	\$ 1,004,020	.750%	March 31, 2013
U. S. Treasury Note	1,999,531	1,999,060	.250%	October 31, 2013
U. S. Treasury Note	2,358,309	2,374,842	2.750%	October 31, 2013
U. S. Treasury Note	1,140,312	1,173,830	5.125%	May 15, 2016
U. S. Treasury Note	1,006,641	1,015,230	1.000%	October 31, 2016
U. S. Treasury Note	1,059,088	1,199,610	4.750%	August 15, 2017
U. S. Treasury Note	1,051,484	1,170,700	3.875%	May 15, 2018
U. S. Treasury Note	1,159,388	1,293,963	3.625%	February 15, 2020
U. S. Treasury Note	1,004,375	1,036,800	2.000%	November 15, 2021
U. S. Treasury Note	765,850	756,098	1.750%	May 15, 2022
	<u>12,551,775</u>	<u>13,024,153</u>		
<u>Agencies of</u>				
<u>U. S. Government:</u>				
<u>Housing and Urban</u>				
Development	250,000	253,998	1.220%	August 1, 2016
Small Business Administration	131,073	132,856	3.870%	January 1, 2014
Small Business Administration	49,816	50,720	4.150%	November 1, 2014
Small Business Administration	212,912	218,181	4.240%	January 1, 2015
Small Business Administration	92,492	96,653	5.100%	January 1, 2016
Small Business Administration	136,296	144,022	5.190%	January 1, 2017
Small Business Administration	170,696	179,060	6.600%	January 1, 2017

## (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:				
Small Business Administration	\$ 139,950	\$ 139,550	5.120%	November 1, 2017
Small Business Administration	117,467	121,716	5.500%	October 1, 2018
Small Business Administration	135,204	140,295	5.800%	December 1, 2018
Small Business Administration	1,088	4,247	3.880%	March 1, 2019
Small Business Administration	202,592	205,089	3.880%	March 1, 2019
Small Business Administration	383,487	403,352	3.310%	May 1, 2019
Small Business Administration	164,239	172,686	6.800%	July 13, 2019
Small Business Administration	88,107	90,841	7.300%	August 1, 2019
Small Business Administration	90,809	80,832	7.630%	June 9, 2020
Small Business Administration	134,593	136,793	7.220%	November 1, 2020
Small Business Administration	300,000	301,956	1.240%	May 1, 2022
Small Business Administration	40,050	40,261	1.240%	May 1, 2022
Federal Farm Credit Bank	538,798	529,000	3.000%	September 22, 2014
Federal Home Loan Mortgage Corporation	137,714	148,951	5.500%	February 2, 2018
Federal Home Loan Mortgage Corporation	230,662	229,828	3.500%	April 1, 2021
Federal Home Loan Mortgage Corporation	256,832	255,904	3.500%	April 1, 2021
Federal National Mortgage Association	66,319	62,953	4.938%	February 1, 2013
Federal National Mortgage Association	183,878	175,648	4.660%	May 1, 2013
Federal National Mortgage Association	450,562	454,410	2.680%	January 1, 2016
Federal National Mortgage Association	231,980	257,752	4.940%	May 1, 2019
Federal National Mortgage Association	162,212	176,749	4.879%	July 1, 2019
Federal National Mortgage Association	52,885	56,196	4.880%	July 1, 2019
Federal National Mortgage Association	226,824	248,609	4.639%	October 1, 2019
Federal National Mortgage Association	212,906	235,649	4.377%	November 1, 2019
Federal National Mortgage Association	226,992	244,938	4.601%	April 1, 2020
Federal National Mortgage Association	104,113	111,060	4.601%	April 1, 2020
Federal National Mortgage Association	207,513	221,202	4.331%	June 1, 2020

(2) INVESTMENTS - Continued

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>Agencies of U. S. Government - continued:</u>				
Federal National Mortgage Association	\$ 311,553	\$ 314,939	3.000%	October 1, 2021
Federal National Mortgage Association	118,833	131,742	5.500%	October 1, 2034
Federal National Mortgage Association	254,113	253,608	5.500%	April 1, 2036
Federal National Mortgage Association	189,207	196,048	4.500%	October 1, 2040
Government National Mortgage Association	159,905	181,970	5.000%	August 20, 2035
Government National Mortgage Association	514,343	514,466	3.000%	January 20, 2027
Government National Mortgage Association	233,501	250,946	4.346%	March 20, 2061
Government National Mortgage Association	359,011	370,440	4.720%	April 20, 2061
Government National Mortgage Association	364,173	370,884	4.700%	June 20, 2061
Government National Mortgage Association	231,270	240,938	4.826%	June 20, 2061
Government National Mortgage Association	<u>283,722</u>	<u>280,680</u>	4.626%	July 20, 2061
	<u>9,150,692</u>	<u>9,428,618</u>		
 <u>Investments backed by full faith and credit of U. S. Government:</u>				
Private Export Funding	<u>493,282</u>	<u>482,554</u>	4.300%	December 15, 2021
Total investments	<u>\$ 22,195,749</u>	<u>\$ 22,935,325</u>		

As of June 30, 2011, 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	\$ 1,059,088	\$ 1,150,160	4.750%	August 15, 2017
U. S. Treasury Note	1,140,312	1,162,190	5.125%	May 15, 2016
U. S. Treasury Note	2,358,309	2,415,000	2.750%	October 31, 2013
U. S. Treasury Note	4,150,180	4,125,133	1.750%	November 15, 2011
U. S. Treasury Note	1,051,484	1,095,390	3.875%	May 15, 2018

## (2) INVESTMENTS - Continued

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
U. S. Treasury Note	\$ 2,107,978	\$ 2,115,780	3.625%	February 15, 2020
	<u>11,867,351</u>	<u>12,063,653</u>		
<u>Agencies of U. S. Government:</u>				
<u>Housing and Urban</u>				
Development	25,044	25,044	6.830%	August 1, 2010
Small Business Administration	239,579	244,904	3.870%	January 1, 2014
Small Business Administration	159,610	169,667	5.190%	January 1, 2017
Small Business Administration	363,603	376,584	4.240%	January 1, 2015
Small Business Administration	73,513	75,672	4.150%	January 1, 2016
Small Business Administration	154,950	163,103	5.100%	January 1, 2016
Small Business Administration	235,014	246,852	6.600%	November 1, 2017
Small Business Administration	175,712	181,388	5.800%	December 1, 2018
Small Business Administration	236,249	247,599	6.800%	July 13, 2019
Small Business Administration	145,596	150,887	5.500%	October 1, 2018
Small Business Administration	144,752	148,775	7.300%	August 1, 2019
Small Business Administration	197,446	198,254	7.220%	November 1, 2020
Small Business Administration	172,100	172,139	5.120%	November 1, 2017
Small Business Administration	116,296	119,651	3.880%	March 1, 2019
Small Business Administration	202,592	205,084	3.880%	March 1, 2019
Small Business Administration	437,658	454,968	3.310%	May 1, 2019
Small Business Administration	137,101	120,697	7.630%	June 9, 2020
Federal Home Loan Mortgage Corporation	183,349	198,074	5.500%	February 2, 2018
Federal Home Loan Mortgage Corporation	510,800	506,840	1.750%	June 15, 2012
Federal National Mortgage Association	173,179	190,168	5.500%	October 1, 2034
Federal National Mortgage Association	315,922	312,896	5.915%	February 1, 2012
Federal National Mortgage Association	308,893	297,568	6.130%	October 1, 2011
Federal National Mortgage Association	235,139	247,398	4.940%	May 1, 2019
Federal National Mortgage Association	165,055	183,167	4.880%	July 1, 2019
Federal National Mortgage Association	52,885	41,995	4.880%	July 1, 2019
Federal National Mortgage Association	229,909	235,083	4.640%	October 1, 2019
Federal National Mortgage Association	215,826	222,043	4.380%	November 1, 2019

## (2) INVESTMENTS - Continued

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>Agencies of U. S. Government - continued:</u>				
Federal National Mortgage Association	\$ 231,011	\$ 247,575	4.600%	June 8, 2020
Federal National Mortgage Association	104,113	94,277	4.600%	April 1, 2020
Federal National Mortgage Association	210,226	211,096	4.330%	June 1, 2020
Federal National Mortgage Association	234,723	230,860	4.500%	October 1, 2040
Federal Farm Credit Bank	538,798	530,105	3.000%	September 22, 2014
Federal National Mortgage Association	450,563	456,021	2.680%	January 1, 2016
Federal National Mortgage Association	351,452	341,534	4.938%	February 1, 2013
Federal National Mortgage Association	204,413	202,190	4.660%	May 1, 2013
Government National Mortgage Association	204,754	229,097	5.000%	August 20, 2035
Government National Mortgage Association	235,329	243,634	4.346%	March 20, 2061
Government National Mortgage Association	352,072	349,364	4.720%	April 20, 2061
Government National Mortgage Association	<u>356,332</u>	<u>356,330</u>	4.700%	June 20, 2061
	<u>9,081,558</u>	<u>9,228,583</u>		
<u>Investments backed by full faith and credit of U. S. Government:</u>				
Private Export Funding	<u>650,000</u>	<u>680,375</u>	5.685%	May 15, 2012
<u>Corporate Bonds</u>				
Suntrust Bank	250,234	252,625	3.000%	November 16, 2011
Morgan Stanley	499,790	507,935	1.950%	January 20, 2009
Tennessee Valley Authority	<u>566,246</u>	<u>528,720</u>	6.790%	May 23, 2012
	<u>1,316,270</u>	<u>1,289,280</u>		
Total investments	<u>\$ 22,915,179</u>	<u>\$ 23,261,891</u>		

(3) FAIR VALUE MEASUREMENTS

Effective July 1, 2009, the Trust adopted new accounting guidance related to fair value measurements which provides a framework for measuring fair value under generally accepted accounting principles, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the three following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

For the fiscal years ended June 30, 2012 and 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

The fair value of obligations of the U. S. government, agencies of the government, and corporate bonds 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, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U. S. government	\$ -	\$ 13,024,153	\$ -	\$ 13,024,153
Agencies of U. S. government		9,428,618		9,428,618
Investments backed by full faith and credit of U. S. Government	<u>-</u>	<u>482,554</u>	<u>-</u>	<u>482,554</u>
Total investments at fair value	<u>\$ -</u>	<u>\$ 22,935,325</u>	<u>\$ -</u>	<u>\$ 22,935,325</u>

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2011:

(3) FAIR VALUE MEASUREMENTS Continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U. S. government	\$ -	\$ 12,063,653	\$ -	\$ 12,063,653
Agencies of U. S. government		9,228,583		9,228,583
Investments backed by full faith and credit of U. S. Government		680,375		680,375
Corporate	<u>-</u>	<u>1,289,280</u>	<u>-</u>	<u>1,289,280</u>
Total investments at fair value	<u>\$ -</u>	<u>\$ 23,261,891</u>	<u>\$ -</u>	<u>\$ 23,261,891</u>

(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>2012</u>	<u>2011</u>
Estimated liability for claims and claim adjustment expenses, beginning	<u>\$ 50,596,000</u>	<u>\$ 44,697,000</u>
Incurred claims and claims adjustment expenses:		
Provision for insured events of current year	17,000,000	17,000,000
Changes in provision for insured events of prior years	<u>(1,442,000)</u>	<u>3,431,000</u>
Total incurred claims and claim adjustment expenses before present value adjustment	<u>15,558,000</u>	<u>20,431,000</u>
Claims and claims adjustment expenses paid during the year:		
Attributable to insured events of current year	\$ (3,344,000)	\$ (3,410,000)
Attributable to insured events of prior years	<u>(11,198,000)</u>	<u>(10,257,000)</u>
Total claims and claim adjustment expenses paid	<u>(14,542,000)</u>	<u>(13,667,000)</u>
Present value adjustment	<u>(65,000)</u>	<u>(865,000)</u>
Estimated liability for claims and claims adjustment expenses, ending	<u>\$ 51,547,000</u>	<u>\$ 50,596,000</u>

(5) ADMINISTRATIVE CONTRACTS

The Trust contracts with a service bureau for claims administration services, and contracts with the Mississippi Tort Claims Board, an agency of the State of Mississippi, for risk control consulting services. Administrative and risk control consulting fees under

(5) ADMINISTRATIVE CONTRACTS - Continued

these contracts amounted to \$773,744 and \$29,413, respectively, for the year ended June 30, 2012. Administrative and risk control consulting fees amounted to \$750,208 and \$29,704, respectively, for the year ended June 30, 2011.

(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 \$350,000 to \$1,500,000 per accident for individual claims limited to the statutory workers compensation limit per accident. Reinsurance premiums for the years ended June 30, 2012 and 2011 were \$525,662 and \$527,319, respectively. During 2012 and 2011, reinsurance recoveries amounted to \$741,793 and \$651,315, respectively. The estimated liability for claims and claim adjustment expenses has been decreased for estimated amounts recoverable on excess loss reinsurance of \$9,834,225 at June 30, 2012 and \$9,523,744 at June 30, 2011. 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.

(7) MISSISSIPPI WORKERS' COMPENSATION COMMISSION ASSESSMENTS

The Trust is obligated to pay annual assessments to fund the operations of the Mississippi Workers' Compensation Commission. The assessments are based on paid claims. The assessments amounted to \$240,388 for 2012 and \$303,772 for 2011. The Trust accrues a liability for future assessments based on the estimated liability for claims and the assessment rate for each year. The liabilities amounted to \$1,269,075 at June 30, 2012 and \$1,221,440 at June 30, 2011.

(8) 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 periodically pays expenses for the Trust and is reimbursed for these expenses. The expenses are for actuarial fees, accounting and legal fees, occupancy costs, supplies, administrative expenses, personnel costs and other items. Reimbursements of these expenses for the years ended June 30, 2012 and 2011 amounted to \$126,010 and \$143,617, respectively.

The Trust has amounts due to and from other agencies of the State of Mississippi as follows:

	<u>2012</u>	<u>2011</u>
Due from other agencies for reimbursement of administrative expenses	\$ 118,614	\$ 176,914
Return contributions due	(787,092)	(818,366)

(9) 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 affect on the financial statements.

(10) SIGNIFICANT AGENCIES

During 2012 and 2011, contributions from the Department of Mental Health represented 45 percent and 41 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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Net earned required contribution and investment revenues	\$ 15,013	\$ 14,388	\$ 14,899	\$ 16,120	\$ 7,145	\$ 13,599	\$ 14,555	\$ 14,120	\$ 15,038	\$ 15,075	\$ 17,083
2. Unallocated expenses	1,267	1,414	1,078	1,088	1,087	1,090	1,159	1,127	1,178	1,259	1,197
3. Gross estimated incurred claims and expenses	13,500	14,500	15,500	15,000	14,000	14,500	15,800	16,500	16,500	17,000	17,000
Losses assumed by excess loss reinsurer	-	-	-	-	-	-	-	-	-	-	-
Net estimated incurred claims and expenses	13,500	14,500	15,500	15,000	14,000	14,500	15,800	16,500	16,500	17,000	17,000
4. Paid (cumulative) as of:											
End of policy year	3,297	3,316	3,785	3,402	2,860	3,306	3,697	3,869	3,686	3,410	3,344
One year later	7,309	6,916	7,835	6,950	5,585	6,760	7,554	7,343	7,990	7,052	
Two years later	9,283	8,926	10,110	8,660	6,891	8,673	9,868	9,116	10,822		
Three years later	10,554	10,301	11,409	9,738	8,100	10,091	11,451	10,390			
Four years later	11,513	11,039	12,660	10,330	8,898	10,936	12,278				
Five years later	12,482	11,437	13,592	10,753	9,302	11,543					
Six years later	13,139	11,625	14,106	11,057	9,851						
Seven years later	13,427	11,790	14,579	11,393							
Eight years later	13,584	11,869	15,166								
Nine years later	13,708	11,994									
Ten years later	13,577										
5. Re-estimated losses assumed by excess loss reinsurers	-	-	-	-	-	-	-	-	-	-	-
6. Re-estimated incurred claims and expenses:											
End of policy year	13,500	14,500	15,500	15,000	14,000	14,500	15,800	16,500	16,500	17,000	17,000
One year later	13,500	14,500	15,600	14,400	12,500	14,500	15,800	16,500	19,000	17,000	
Two years later	13,800	14,400	16,200	14,300	12,000	14,500	16,500	15,500	19,000		
Three years later	14,300	14,200	16,000	13,500	12,250	15,000	16,500	15,500			
Four years later	14,500	14,200	16,500	13,500	12,250	15,500	16,500				
Five years later	14,800	13,700	17,000	13,000	12,500	15,000					
Six years later	15,100	13,400	18,200	13,500	12,300						
Seven years later	14,900	13,800	19,000	13,500							
Eight years later	14,900	13,600	19,000								
Nine years later	14,900	13,500									
Ten years later	14,500										
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	1,000	(1,000)	3,500	(1,500)	(1,700)	500	700	(1,000)	2,500	-	-

See Note to Supplementary Information.

## NOTE TO SUPPLEMENTARY INFORMATION

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 reestimated 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 10 rows shows how each policy year's incurred claims (net of reinsurance) increased or decreased as of the end of successive years. This annual reestimation 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 reestimated 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 reestimated 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

### 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 the basic financial statements of Mississippi State Agencies Self-insured Workers' Compensation Trust, a component unit of the State of Mississippi, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 2, 2011. We conducted our audit 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mississippi State Agencies Self-insured Workers' Compensation Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mississippi State Agencies Self-insured Workers' Compensation Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mississippi State Agencies Self-insured Workers' Compensation Trust's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The Board of Trustees  
Mississippi State Agencies  
Self-insured Workers' Compensation Trust - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mississippi State Agencies Self-insured Workers' Compensation Trust, 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, noncompliance 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 noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, others within the Organization and the Board of Trustees of Mississippi State Agencies Self-insured Workers' Compensation Trust and is not intended to be and should not be used by anyone other than these specified parties.

Hepler, Baum, Knight & Company, P.A.

October 2, 2012