



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.



MISSISSIPPI STATE AGENCIES  
SELF-INSURED WORKERS'  
COMPENSATION TRUST

JACKSON, MISSISSIPPI

FINANCIAL REPORT

JUNE 30, 2016

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

## CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required supplementary information)	5
BASIC FINANCIAL STATEMENTS	
Statements of net position	8
Statements of revenues, expenses and changes in fund net position	9
Statements of cash flows	10
Notes to financial statements	12
SUPPLEMENTARY INFORMATION	
Loss development information (unaudited)	27
Note to supplementary information	28
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 <i>GOVERNMENT AUDITING STANDARDS</i>	29



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 ("Trust"), a component unit of the State of Mississippi, as of and for years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 audit. 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 audit 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

**Certified Public Accountants • Consultants • hrkcpa.com**

1052 Highland Colony Parkway, Suite 100  
Ridgeland, MS 39157  
p: 601-605-0722 • f: 601-605-0733

700 12th Street NW, Suite 700  
Washington, DC 20005  
p: 202-558-5162 • f: 601-605-0733

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

**Auditors' Responsibility - continued**

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.

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 respective financial position of the Mississippi State Agencies Self-Insured Workers' Compensation Trust as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof 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 5-7 and 27-28 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.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016 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, Reams, Knight & Company, P.A.*

September 30, 2016

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, 2016. 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 \$49,796,818, which was a decrease of \$976,745, or 2%, from the prior fiscal year. Current liabilities were \$14,045,389, a decrease of \$262,806 over the 2015 amount. The long-term portion of estimated claim liabilities decreased \$701,000, or 2%, to \$34,776,000 at June 30, 2016.
- Total assets for the Trust at year end were \$49,796,818, which was a decrease of \$976,745 from the prior fiscal year. The unrestricted fund net position is reported as zero on the 2016 and 2015 balance sheets, respectively. This is a result of the Trust recording a premium deficiency receivable of \$15,913,586 as of 2016 and \$18,099,188 as of 2015, 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 operating expenses decreased \$692,225 or 5% which relates almost exclusively to a decrease in net paid and incurred claims from the prior fiscal year.
- Operating revenue decreased \$692,225, which relates to a decrease in the premium deficiency receivable and contributions, which was offset by increases in interest income and realized gains in excess of unrealized losses.
- The premium deficiency receivable decreased \$2,185,602 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 of the Trust include Statements of Net Position, Statements of Revenues, Expenses and Changes in Fund Net Position, and Statements of Cash Flows. The Statements of Net Position summarize and describes the assets, liabilities, and financial condition of the Trust. The Statements of Revenues, Expenses and Changes in Fund Net Position provide fiscal year totals for the revenues, expenses, and resulting changes in net assets experienced by the Trust. The Statements of Cash Flows summarize 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, 2016 and 2015.

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 2016, the premium deficiency receivable decreased \$2.19 million from the 2015 reported balance of \$18.1 million due to a decrease in administrative expenses and claim liabilities.

The premium discount approved by the board of trustees was 20% and 15% in 2016 and 2015, respectively. Operating expenses decreased for the period ended June 30, 2016, the result of a decrease in the change in claims paid and administrative expenses. 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 - 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

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

ASSETS

	2016	2015
Current assets		
Cash and cash equivalents	\$ 6,527,486	\$ 6,308,901
Funds held by others	983,271	1,029,204
Investments	25,834,870	24,835,313
Assessments receivable	299,004	228,030
Accrued interest receivable	156,889	160,990
Other assets	81,712	111,937
Total current assets	33,883,232	32,674,375
Premium deficiency receivable	15,913,586	18,099,188
Total assets	<u>\$ 49,796,818</u>	<u>\$ 50,773,563</u>

LIABILITIES AND NET POSITION

Current liabilities		
Estimated liability for claims and claim adjustment expenses, net - current portion	\$ 12,000,000	\$ 12,800,000
Return contributions due	1,556,014	1,045,934
Accrued expenses:		
State workers' compensation assessments - current portion	326,010	334,925
Administrative fees and other	163,365	127,336
Total current liabilities	14,045,389	14,308,195
Long-term liabilities		
Estimated liability for claims and claim adjustment expenses, net - long-term	34,776,000	35,477,000
State workers' compensation assessments - long-term	975,429	988,368
	35,751,429	36,465,368
Total liabilities	49,796,818	50,773,563
Unrestricted net position	-	-
Total liabilities and fund net position	<u>\$ 49,796,818</u>	<u>\$ 50,773,563</u>

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 POSITION  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Earned contributions, net of reinsurance premiums	14,292,079	\$ 14,751,770
Premium deficiency decrease	(2,185,602)	(1,556,519)
Interest income	848,245	786,177
Realized and unrealized gains (losses) on investments	62,666	(271,815)
Total operating revenue	<u>13,017,388</u>	<u>13,709,613</u>
Operating expenses:		
Claims paid and incurred, net of reinsurance recoveries	11,798,341	12,456,892
Administrative fees	752,600	798,000
Workers' Compensation Commission assessments	207,258	202,857
Risk control fees	53,962	51,375
Reimbursements to State of Mississippi for:		
Allocated expenses	165,217	171,210
Actuarial fees	7,230	(3,040)
Accounting and legal	13,559	12,845
Other	19,221	19,474
Total operating expenses	<u>13,017,388</u>	<u>13,709,613</u>
Operating gain	<u>-</u>	<u>-</u>
Transfers	<u>-</u>	<u>-</u>
Change in fund net position	-	-
Fund net position - unrestricted, beginning	<u>-</u>	<u>-</u>
Fund net position - unrestricted, ending	<u>\$ -</u>	<u>\$ -</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  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from participating agencies	\$ 14,731,185	\$ 15,408,608
Receipts of interest on investments	852,346	744,911
Payments for claims	(13,299,341)	(14,454,892)
Transfers to claims administrator in excess (shortage) of claims	45,933	(689,347)
Payments to suppliers for services	(949,647)	(1,025,165)
Payments for interfund services	(225,000)	(225,000)
Net cash provided by (used in) operating activities	<u>1,155,476</u>	<u>(240,885)</u>
Cash flows from investing activities:		
Investments acquired	(8,801,471)	(17,733,547)
Proceeds from investments sold or called	<u>7,864,580</u>	<u>17,359,682</u>
Net cash used in investing activities	<u>(936,891)</u>	<u>(373,865)</u>
Increase (decrease) in cash and cash equivalents	218,585	(614,750)
Cash and cash equivalents, beginning	<u>6,308,901</u>	<u>6,923,651</u>
Cash and cash equivalents, ending	<u>\$ 6,527,486</u>	<u>\$ 6,308,901</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating gain to net cash provided by (used in) operating activities:		
Operating gain	\$ -	\$ -
Adjustments to reconcile operating gain to net cash provided by (used in) operating activities:		
Realized and unrealized investment losses	(62,666)	271,815
Net effect of changes in assets and liabilities:		
Estimated liability for claims and claim adjustment expenses	(1,501,000)	(1,998,000)
Change in funds held by others	45,933	(689,347)
Accrued interest receivable	4,101	(41,266)
Assessments receivable	(70,974)	326,257
Premium deficiency receivable	2,185,602	1,556,519
Other assets	30,225	(24,512)
Return contributions due	510,080	330,581
Accrued expenses	<u>14,175</u>	<u>27,068</u>
Net cash provided by (used in) operating activities	<u>\$ 1,155,476</u>	<u>\$ (240,885)</u>

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 ("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 ("Pool"). As of June 30, 2016, one hundred and five (105) 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 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 ("GASB"). The Trust 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 Laws of the State of Mississippi. Any funds in excess of the amount necessary to fund all obligations for

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting Method and Measurement Focus - continued

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. Contributions are adjusted as of each fiscal year based on final payroll amounts for the respective agency. Assessments receivable reported, as of June 30, 2016 and 2015, were \$299,004 and \$228,030, respectively. Return contributions due reported as of June 30, 2016 and 2015 were \$1,556,014 and \$1,045,934, respectively.

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 \$2,185,602 in 2016 and \$1,566,519 in 2015.

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 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, 2016 and 2015. The discounts applied to the gross liability were \$7,088,000 and \$6,928,000 at June 30, 2016 and 2015, 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 \$23,744,000 at June 30, 2016 and \$24,925,000 at June 30, 2015.

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 \$30,120,000 at June 30, 2016 and \$30,280,000 at June 30, 2015.

Income Taxes

The Trust is exempt from income taxes 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.

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 \$196,297 and \$377,808 as of June 30, 2016 and 2015, 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 September 30, 2016, 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.

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 obtained from Moody's Corporation is presented below. Investments for which a rating was not available are designated as not rated ("NR").

As of June 30, 2016, 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	\$ 1,318,418	1.500%	August 31, 2018
U. S. Treasury Note	<u>1,319,002</u>	<u>1,341,150</u>	2.500%	August 15, 2023
	<u>2,632,513</u>	<u>2,659,568</u>		
<u>Agencies of U. S. Government:</u>				
Housing and Urban Development	250,000	250,228	1.220%	August 1, 2016
Housing and Urban Development	159,849	150,593	4.480%	August 1, 2016
Housing and Urban Development	303,843	302,982	1.540%	August 1, 2017
Housing and Urban Development	277,260	269,935	4.620%	August 1, 2018
Small Business Administration	7,539	7,586	5.190%	January 1, 2017
Small Business Administration	16,858	15,845	5.120%	November 1, 2017
Small Business Administration	51,085	49,345	6.600%	November 1, 2017
Small Business Administration	69,021	66,266	6.000%	September 1, 2018
Small Business Administration	18,805	18,567	5.500%	October 1, 2018

## (2) INVESTMENTS - Continued

	Carrying Value	Fair Value	Interest Rate	Maturity Date
Agencies of				
<u>U. S. Government - continued:</u>				
Small Business Administration	\$ 24,761	\$ 24,557	5.800%	December 1, 2018
Small Business Administration	65,871	64,954	3.880%	March 1, 2019
Small Business Administration	56,790	57,853	3.310%	May 1, 2019
Small Business Administration	33,975	33,060	6.800%	June 1, 2019
Small Business Administration	266,631	264,880	3.190%	June 1, 2019
Small Business Administration	113,240	106,642	7.300%	August 1, 2019
Small Business Administration	21,581	20,793	7.060%	November 1, 2019
Small Business Administration	151,150	147,582	2.860%	March 1, 2020
Small Business Administration	31,434	28,104	7.630%	June 9, 2020
Small Business Administration	32,963	31,577	7.220%	November 1, 2020
Small Business Administration	335,599	332,708	6.340%	March 1, 2021
Small Business Administration	388,304	395,852	2.877%	September 1, 2021
Small Business Administration	513,806	522,874	2.766%	March 10, 2022
Small Business Administration	193,496	192,725	1.240%	May 1, 2022
Small Business Administration	93,458	90,632	5.310%	August 1, 2022
Small Business Administration	417,840	421,285	2.245%	September 10, 2022
Small Business Administration	249,539	250,734	1.010%	November 1, 2022
Small Business Administration	317,539	318,948	1.110%	January 1, 2023
Small Business Administration	588,806	604,747	2.351%	March 10, 2023
Small Business Administration	620,184	627,006	1.100%	May 1, 2023
Small Business Administration	540,081	539,514	3.644%	September 10, 2023
Small Business Administration	338,431	341,789	1.880%	November 1, 2023
Small Business Administration	285,152	290,459	2.140%	January 1, 2024
Small Business Administration	580,321	589,385	3.191%	March 10, 2024
Small Business Administration	223,272	224,930	1.980%	May 1, 2024
Small Business Administration	405,535	404,131	5.180%	May 1, 2024
Small Business Administration	592,236	605,687	3.015%	September 10, 2024
Small Business Administration	441,141	444,878	2.030%	November 1, 2024
Small Business Administration	663,638	662,721	2.517%	March 10, 2025
Small Business Administration	511,149	517,231	1.660%	November 1, 2025
Small Business Administration	500,000	506,295	1.800%	January 1, 2026
Small Business Administration	600,000	602,568	1.840%	March 1, 2026
Federal Home Loan Mortgage Corporation	16,213	16,496	5.500%	February 1, 2018
Federal National Mortgage Association	217,151	231,107	4.940%	May 1, 2019
Federal National Mortgage Association	162,954	168,769	4.879%	July 1, 2019
Federal National Mortgage Association	162,125	170,317	4.639%	October 1, 2019
Federal National Mortgage Association	327,046	343,628	4.377%	November 1, 2019

(2) INVESTMENTS - Continued

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies				
<u>U. S. Government - continued:</u>				
Federal National Mortgage Association	\$ 277,591	\$ 292,504	4.601%	April 1, 2020
Federal National Mortgage Association	131,335	135,179	4.331%	June 1, 2020
Federal National Mortgage Association	368,090	366,219	4.086%	September 1, 2020
Federal National Mortgage Association	272,575	268,714	3.330%	October 1, 2020
Federal Home Loan Mortgage Corporation	53,874	54,001	3.500%	April 1, 2021
Federal Home Loan Mortgage Corporation	76,910	77,092	3.500%	April 1, 2021
Federal National Mortgage Association	199,034	198,757	3.000%	November 1, 2021
Federal National Mortgage Association	272,131	273,955	2.500%	November 1, 2022
Federal National Mortgage Association Pool	301,600	308,430	2.980%	January 1, 2025
Federal National Mortgage Association	51,006	52,762	4.500%	October 1, 2040
Federal National Mortgage Association	360,322	365,181	3.000%	September 1, 2042
Federal National Mortgage Association	369,268	374,342	3.500%	September 1, 2042
Federal National Mortgage Association	485,772	505,026	3.000%	July 1, 2043
Federal National Mortgage Association	320,939	321,684	4.000%	January 1, 2046
Government National Mortgage Association	269,200	270,540	3.000%	January 20, 2027
Government National Mortgage Association	138,936	138,403	1.660%	March 16, 2033
Government National Mortgage Association	272,246	272,630	1.700%	August 16, 2033
Government National Mortgage Association	262,066	262,725	2.150%	May 16, 2039
Government National Mortgage Association	507,302	504,560	1.900%	March 16, 2040
Government National Mortgage Association	505,181	503,925	2.534%	March 16, 2041
Government National Mortgage Association	161,673	159,947	2.000%	February 20, 2043

(2) INVESTMENTS - Continued

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies				
<u>U. S. Government - continued:</u>				
Government National Mortgage Association	\$ 510,255	\$ 512,095	1.950%	February 16, 2044
Government National Mortgage Association	<u>295,560</u>	<u>295,194</u>	2.500%	December 16, 2044
	<u>18,700,538</u>	<u>18,842,630</u>		

Investments backed by  
full faith and credit of

U. S. Government:

New Valley Generation V	410,886	413,110	4.930%	January 15, 2021
Private Export Funding	506,090	548,242	2.450%	July 15, 2024
Private Export Funding	<u>515,400</u>	<u>491,619</u>	4.300%	December 15, 2021
	<u>1,432,376</u>	<u>1,452,971</u>		

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Credit Rating</u>
<u>Foreign Investments:</u>					
Ukraine Cabinet	602,820	610,776	1.844%	May 16, 2019	NR
Hashemite	252,308	258,180	1.945%	June 23, 2019	NR
Aid-Tunisia	274,000	277,209	1.686%	July 16, 2019	NR
Hashemite	610,422	635,394	2.503%	October 30, 2020	NR
Amal LTD	196,170	189,783	3.465%	August 21, 2021	NR
Aid-Israel	610,505	629,440	5.500%	December 4, 2023	Aaa
Lulwa LTD	<u>275,854</u>	<u>278,919</u>	1.888%	February 15, 2025	NR
	<u>2,822,079</u>	<u>2,879,701</u>			
Total investments	<u>\$25,587,506</u>	<u>\$25,834,870</u>			

As of June 30, 2015, 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	<u>\$ 2,761,217</u>	<u>\$ 2,604,875</u>	5.125%	May 15, 2016
	<u>2,761,217</u>	<u>2,604,875</u>		
Agencies of				
<u>U. S. Government:</u>				
Housing and Urban Development	250,000	251,925	1.220%	August 1, 2016
Housing and Urban Development	159,849	156,312	4.480%	August 1, 2016

## (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>				
Housing and Urban Development	\$ 303,843	\$ 304,074	1.540%	August 1, 2017
Housing and Urban Development	277,260	276,175	4.620%	August 1, 2018
Small Business Administration	15,061	15,195	5.100%	January 1, 2016
Small Business Administration	31,707	32,279	5.190%	January 1, 2017
Small Business Administration	96,234	93,864	6.600%	November 1, 2017
Small Business Administration	37,486	36,026	5.120%	November 1, 2017
Small Business Administration	114,221	111,396	6.000%	September 1, 2018
Small Business Administration	29,471	29,377	5.500%	October 1, 2018
Small Business Administration	39,216	39,339	5.800%	December 1, 2018
Small Business Administration	96,630	96,307	3.880%	March 1, 2019
Small Business Administration	106,163	108,734	3.310%	May 1, 2019
Small Business Administration	47,494	48,295	6.800%	June 1, 2019
Small Business Administration	361,290	360,214	3.190%	June 1, 2019
Small Business Administration	155,315	151,929	7.300%	June 1, 2019
Small Business Administration	32,324	32,435	7.060%	November 1, 2019
Small Business Administration	231,058	225,972	2.860%	March 1, 2020
Small Business Administration	48,772	44,549	7.630%	June 9, 2020
Small Business Administration	45,567	44,350	7.220%	November 1, 2020
Small Business Administration	572,023	569,620	6.340%	March 1, 2021
Small Business Administration	429,196	431,649	2.877%	September 1, 2021
Small Business Administration	574,097	575,459	2.766%	March 10, 2022
Small Business Administration	241,179	237,298	1.240%	May 1, 2022
Small Business Administration	149,447	144,790	5.310%	August 1, 2022
Small Business Administration	453,784	450,330	2.245%	September 10, 2022
Small Business Administration	320,650	317,319	1.010%	November 1, 2022
Small Business Administration	385,460	382,241	1.110%	January 1, 2023
Small Business Administration	608,531	608,192	2.351%	March 10, 2023
Small Business Administration	729,503	725,950	1.100%	May 1, 2023
Small Business Administration	661,601	663,864	3.644%	September 10, 2023
Small Business Administration	389,425	388,576	1.880%	November 1, 2023
Small Business Administration	330,442	332,478	2.140%	January 1, 2024
Small Business Administration	638,342	636,285	3.191%	March 10, 2024
Small Business Administration	558,017	550,632	5.180%	May 1, 2024
Small Business Administration	248,601	247,757	1.980%	May 1, 2024
Small Business Administration	520,919	517,976	2.030%	November 1, 2024
Small Business Administration	614,092	617,995	3.015%	September 10, 2024
Federal National Mortgage Association	88,840	86,888	4.849%	November 1, 2015
Federal National Mortgage Association Pool	450,563	447,822	2.680%	January 1, 2016

(2) INVESTMENTS - Continued

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies				
<u>U. S. Government - continued:</u>				
Federal National Mortgage Association Pool	\$ 415,000	\$ 424,144	2.680%	January 1, 2016
Federal Home Loan Mortgage Corporation	27,861	28,726	5.500%	February 2, 2018
Federal National Mortgage Association	221,169	237,884	4.940%	May 1, 2019
Federal National Mortgage Association	165,868	173,236	4.879%	July 1, 2019
Federal National Mortgage Association	165,612	175,012	4.639%	October 1, 2019
Federal National Mortgage Association	202,960	217,117	4.377%	November 1, 2019
Federal National Mortgage Association	316,501	333,766	4.601%	April 1, 2020
Federal National Mortgage Association	133,621	137,636	4.331%	June 1, 2020
Federal National Mortgage Association	277,942	269,742	3.330%	October 1, 2020
Federal National Mortgage Association	338,207	339,294	3.500%	November 1, 2021
Federal Home Loan Mortgage Corporation	77,281	77,142	3.500%	April 1, 2021
Federal Home Loan Mortgage Corporation	105,596	105,406	3.500%	April 1, 2021
Federal National Mortgage Association	631,480	629,354	3.000%	October 1, 2021
Federal National Mortgage Association	279,376	276,695	3.000%	November 1, 2021
Federal National Mortgage Association	356,961	355,141	2.500%	November 1, 2022
Federal National Mortgage Association Pool	301,600	290,882	2.980%	January 1, 2025
Federal National Mortgage Association	80,204	82,395	4.500%	October 1, 2040
Federal National Mortgage Association	394,612	384,990	3.000%	September 1, 2042
Government National Mortgage Association	338,753	335,875	3.000%	January 20, 2027
Government National Mortgage Association	367,184	366,631	1.660%	March 16, 2033



(2) INVESTMENTS - Continued

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies				
<u>U. S. Government - continued:</u>				
Government National Mortgage Association	\$ 63,253	\$ 72,257	5.000%	August 20, 2035
Government National Mortgage Association	493,767	491,841	1.900%	March 16, 2040
Government National Mortgage Association	231,920	228,559	2.000%	February 20, 2043
Government National Mortgage Association	479,252	478,818	1.950%	February 16, 2044
Government National Mortgage Association	<u>303,845</u>	<u>302,258</u>	2.500%	December 16, 2044
	<u>18,213,498</u>	<u>18,206,669</u>		

Investments backed by  
full faith and credit of

U. S. Government:

New Valley Generation V	474,502	474,502	4.930%	January 15, 2021
Private Export Funding	<u>515,400</u>	<u>480,117</u>	4.300%	December 15, 2021
	<u>989,902</u>	<u>954,619</u>		

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Credit Rating</u>
<u>Foreign Investments:</u>					
Ukraine Cabinet	602,820	600,756	1.844%	May 16, 2019	NR
Hashemite	252,308	254,345	1.945%	June 23, 2019	NR
Aid-Tunisia	465,000	456,279	1.686%	July 16, 2019	NR
Hashemite	610,422	619,500	2.503%	October 30, 2020	NR
Amal LTD	229,848	222,219	3.465%	August 21, 2021	NR
Aid-Israel	610,505	606,735	5.500%	December 4, 2023	Aaa
Lulwa LTD	<u>304,511</u>	<u>300,316</u>	1.888%	February 15, 2025	NR
	<u>3,075,414</u>	<u>3,060,150</u>			
Total investments	<u>\$25,040,031</u>	<u>\$ 24,835,313</u>			

(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:

(3) FAIR VALUE MEASUREMENTS - Continued

- 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 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, 2016 and 2015.

The fair value of obligations of the U. S. government, agencies of the government, and foreign 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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U. S. Government	\$ -	\$ 2,659,568	\$ -	\$ 2,659,568
Agencies of U. S. Government	-	18,842,631	-	18,842,631
Investments backed by full faith and credit of U. S. Government	-	1,452,971	-	1,452,971
Foreign investments	-	2,879,700	-	2,879,700
Total investments at fair value	<u>\$ -</u>	<u>\$ 25,834,870</u>	<u>\$ -</u>	<u>\$ 25,834,870</u>

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2015:

(3) FAIR VALUE MEASUREMENTS - Continued

	Level 1	Level 2	Level 3	Total
U. S. Government	\$ -	\$ 2,604,875	\$ -	\$ 2,604,875
Agencies of U. S. Government	-	18,206,669	-	18,206,669
Investments backed by full faith and credit of U. S. Government	-	954,619	-	954,619
Foreign investments	-	3,069,150	-	3,069,150
Total investments at fair value	<u>\$ -</u>	<u>\$ 24,835,313</u>	<u>\$ -</u>	<u>\$ 24,835,313</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.

	2016	2015
Estimated liability for claims and claims adjustment expenses, beginning	<u>\$ 48,277,000</u>	<u>\$ 50,275,000</u>
Incurred claims and claims adjustment expenses:		
Provision for insured events of current year	15,000,000	16,000,000
Changes in provision for insured events of prior years	<u>(3,042,000)</u>	<u>(3,566,000)</u>
Total incurred claims and claims adjustment expenses before present value adjustment	<u>11,958,000</u>	<u>12,434,000</u>
Claims and claims adjustment expenses paid during the year:		
Attributable to insured events of current year	(3,423,000)	(3,486,000)
Attributable to insured events of prior years	<u>(9,876,000)</u>	<u>(10,969,000)</u>
Total claims and claim adjustment expenses paid	<u>(13,299,000)</u>	<u>(14,455,000)</u>
Present value adjustment	<u>(160,000)</u>	<u>23,000</u>
Estimated liability for claims and claims adjustment expenses, ending	<u>\$ 46,776,000</u>	<u>\$ 48,277,000</u>

The decrease in the provision of insured events of prior years for 2016 and 2015 is the result of better than anticipated claims experience in recent years. Actuarial assumptions can be significantly affected by changes in claim payment patterns.

(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 \$752,600 and \$53,962, respectively, for the year ended June 30, 2016. Administrative and risk control consulting fees amounted to \$798,000 and \$51,375, respectively, for the year ended June 30, 2015. Funds held in escrow for the future payments of claims amounted to \$983,271 and \$1,029,204 as of June 30, 2016 and 2015, respectively.

(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 \$1,500,000 for 2016 and 2015, respectively, per accident for individual claims limited to the statutory workers' compensation limit per accident. Reinsurance premiums for the years ended June 30, 2016 and 2015 were \$484,498 and \$647,881, respectively. During 2016 and 2015, reinsurance recoveries amounted to \$563,382 and \$271,817, respectively. The estimated liability for claims and claim adjustment expenses has been decreased for estimated amounts recoverable on excess loss reinsurance of \$12,510,651 at June 30, 2016 and \$11,872,815 at June 30, 2015.

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 \$207,258 for 2016 and \$202,857 for 2015. 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 \$1,301,439 at June 30, 2016 and \$1,323,293 at June 30, 2015.

(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 ("DFA") periodically pays expenses for the Trust and is reimbursed for these expenses. The expenses are for actuarial fees, accounting and legal fees, supplies, administrative expenses, personnel costs and other items. Reimbursements of these expenses for the years ended June 30, 2016 and 2015 amounted to \$165,217 and \$171,210, respectively.

(8) RELATED PARTIES - Continued

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

	<u>2016</u>	<u>2015</u>
Due from other agencies for reimbursement of administrative expenses	\$ 81,711	\$ 111,937
Return contributions due	(1,556,014)	(1,045,934)
Assessments receivable	299,004	228,030

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.

(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 2016 and 2015, contributions from the Department of Mental Health represented 39 percent and 44 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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Net earned required contribution and investment revenues	\$ 13,599	\$ 14,555	\$ 14,120	\$ 15,038	\$ 15,075	\$ 17,083	\$ 16,703	\$ 17,064	\$ 15,266	\$ 15,203
2. Unallocated expenses	1,090	1,159	1,157	1,178	1,259	1,197	1,332	1,256	1,253	1,219
3. Gross estimated incurred claims and expenses	14,500	15,800	16,500	16,500	17,000	17,000	16,500	17,000	16,000	15,000
Losses assumed by excess loss reinsurer	-	-	-	-	-	-	-	-	-	-
Net estimated incurred claims and expenses	14,500	15,800	16,500	16,500	17,000	17,000	16,500	17,000	16,000	15,000
4. Paid (cumulative) as of:										
End of policy year	3,306	3,697	3,869	3,686	3,410	3,344	2,976	2,577	3,486	3,423
One year later	6,760	7,554	7,343	7,990	7,052	6,770	6,356	6,252	6,889	
Two years later	8,673	9,868	9,116	10,822	9,031	8,216	8,079	8,112		
Three years later	10,091	11,451	10,390	12,497	10,306	9,156	9,393			
Four years later	10,936	12,278	11,290	13,335	11,262	10,128				
Five years later	11,543	12,838	11,662	14,261	12,031					
Six years later	12,099	13,180	12,185	14,652						
Seven years later	12,281	13,670	12,296							
Eight years later	12,666	13,839								
Nine years later										
Ten years later	12,754									
5. Re-estimated losses assumed by excess loss reinsurers	-	-	-	-	-	-	-	-	-	-
6. Re-estimated incurred claims and expenses:										
End of policy year	14,500	15,800	16,500	16,500	17,000	17,000	16,500	17,000	16,000	15,000
One year later	14,500	15,800	16,500	19,000	19,000	16,500	16,500	15,000	15,500	
Two years later	14,500	16,500	15,500	19,000	16,500	16,000	14,500	15,000		
Three years later	15,000	16,500	15,500	19,000	15,000	14,000	14,500			
Four years later	15,500	16,500	15,100	17,500	15,000	14,000				
Five years later	15,000	16,500	14,750	17,000	15,000					
Six years later	14,300	16,000	14,250	17,000						
Seven years later	14,000	16,000	14,250							
Eight years later	14,000									
Nine years later										
Ten years later	14,000									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	(500)	200	(2,250)	500	(2,000)	(3,000)	(2,000)	(2,000)	(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 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 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

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 ("Trust"), a component unit of the State of Mississippi, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated September 30, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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.

**Certified Public Accountants • Consultants • hrkcpa.com**

1052 Highland Colony Parkway, Suite 100  
Ridgeland, MS 39157  
p: 601-605-0722 • f: 601-605-0733

700 12th Street NW, Suite 700  
Washington, DC 20005  
p: 202-558-5162 • f: 601-605-0733



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

**Internal Control Over Financial Reporting - continued**

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 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, 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 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.

*Hugen, Reams, Knight & Company, P.A.*

September 30, 2016

