State of Mississippi

State and School Employees' Life and Health Insurance Plan

Independent Auditor's Reports and Financial Statements

June 30, 2018

BKD

CPAs & Advisors

State of Mississippi
State and School Employees'
Life and Health Insurance Plan
June 30, 2018

Contents

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Independent Auditor's Report

Members of the State of Mississippi State and School
Employees' Health Insurance Management Board
State of Mississippi State and School Employees'
Life and Health Insurance Plan
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Mississippi State and School Employees' Life and Health Insurance Plan (the Plan) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Plan'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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. 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 auditor's 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 auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Mississippi State and School Employees' Life and Health Insurance Plan as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 2*, the financial statements present only the financial statements of the Plan and do not purport to, and do not, present fairly the financial position of the State of Mississippi as of June 30, 2018, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in *Note 3* to the financial statements, the unrestricted net position of the Plan at the beginning of the year has been restated to correct a misstatement in the 2017 financial statements of the Plan. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The Plan has also omitted a schedule of ten-year revenue and claims development information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2019, on our consideration of the Plan'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 solely 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 effectiveness of the Plan's 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 Plan's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
March 14, 2019

State of Mississippi
State and School Employees' Life and Health Insurance Plan
Statement of Net Position
June 30, 2018

Assets	
Cash and cash equivalents	
Equity in the State's internal investment pool	$ 263,397,569
Cash	47,105,583
Total cash and cash equivalents	310,503,152
Due from other governments	104,718
Total assets	310,607,870
Liabilities	
Liabilities	
Accounts payable and other liabilities	13,257,477
Claims and benefits payable	70,527,418
Unearned revenue	12,238,300
Total liabilities	96,023,195
Net Position	
Unrestricted Net Position	$ 214,584,675

State of Mississippi
State and School Employees' Life and Health Insurance Plan
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2018

Operating Revenues	
Charges for premiums	$ 738,617,273
Operating Expenses	
Claims and benefits	736,506,632
Contractual services	34,509,701
Other taxes	918,049
Subsidies	10,406,147
Total operating expenses	782,340,529
Operating loss	(43,723,256)
Nonoperating Revenues	
Investment income	3,641,994
Loss before nonoperating expenses	(40,081,262)
Nonoperating Expenses	
Amounts paid to other state funds	(3,100,000)
Nonoperating expenses	(3,100,000)
Change in Net Position	(43,181,262)
Unrestricted Net Position, Beginning of Year, as Previously Reported	277,765,937
Adjustment Applicable to Prior Year	(20,000,000)
Unrestricted Net Position, Beginning of Year, as Restated	257,765,937
Unrestricted Net Position, End of Year	$ 214,584,675

State of Mississippi
State and School Employees' Life and Health Insurance Plan
Statement of Cash Flows
Year Ended June 30, 2018

Cash Flows From Operating Activities	
Premiums collected	$ 741,338,557
Payments to suppliers for goods and services	(35,023,838)
Payments for claims and benefits	(736,679,105)
Payments for other taxes	(918,049)
Payments to other funds	(10,413,565)
Net cash used in operating activities	(41,696,000)
Cash Flows From Noncapital Financing Activities	
Payments to other State funds	(3,100,000)
Net cash used in noncapital financing activities	(3,100,000)
Cash Flows From Investing Activities	
Investment income received	3,641,994
Net cash provided by investing activities	3,641,994
Net Decrease in Cash and Cash Equivalents	(41,154,006)
Cash and Cash Equivalents, Beginning of Year as Restated	351,657,158
Cash and Cash Equivalents, End of Year	$ 310,503,152
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	$ (43,723,256)
Change in operating assets and liabilities	
Due from other governments	(7,418)
Accounts payable and other liabilities	(514,137)
Claims and benefits payable	(172,473)
Unearned revenue	2,721,284
Total adjustments	2,027,256
Net cash used in operating activities	$ (41,696,000)
Presented on the Statement of Net Position	
Equity in the State's internal investment pool	$ 263,397,569
Cash	47,105,583
	$ 310,503,152

Note 1: Description of the Plan

The following brief description of the State of Mississippi State and School Employees' Life and Health Insurance Plan (the Plan) is provided for general information purposes only. Participants should refer to Title 25 Chapter 15 of the Mississippi statutes as amended or the Plan Document for more complete information.

The Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Plan. The Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The Plan is maintained solely for the benefit of eligible employees, dependents and retirees. The Plan is accounted for in various funds of the State of Mississippi (the State) as discussed in *Note 2*.

The 14-member board, which administers the Plan, is comprised of the Chairman of the Workers' Compensation Commission; the State Personnel Director; the Commissioner of Insurance; the Commissioner of Higher Education; the State Superintendent of Public Education; the Executive Director of the Department of Finance and Administration; the Executive Director of the Mississippi Community College Board; the Executive Director of the Public Employees Retirement System; two appointees of the Governor; the Chairman of the Senate Insurance Committee, or his designee; the Chairman of the House of Representatives Insurance Committee, or his designee; the Chairman of the Senate Appropriations Committee, or his designee; and the Chairman of the House of Representatives' Appropriations Committee, or his designee. The Board has a fiduciary responsibility to manage the funds of the Plan. The Plan maintains a budget approved by the Board.

General

The Plan was formed by the State Legislature to provide group health and life benefits to full-time active and retired employees of the State, agencies, universities, community/junior colleges, public school districts and public libraries. In addition, the spouse and/or children of covered employees and retirees, as well as surviving spouses and COBRA participants, may be eligible for health insurance coverage under the Plan.

Premiums and Participants

Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan.

Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance will have the full cost of such insurance premium deducted monthly from his or her state retirement plan check or direct billed for the cost of the premium if the retirement check is insufficient to pay for the premium. If the Board determines actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance. For the year ended June 30, 2018, retirement premiums range from $184 to $1,549, depending on the coverage (Base or Select), dependent coverage, Medicare eligibility and date of hire.

Fees for third-party medical claims administration services provided by Blue Cross and Blue Shield of Mississippi, which totaled approximately $19,059,000 for the year ended June 30, 2018, are included in contractual services in the accompanying statement of revenues, expenses and changes in net position.

Pursuant to the authority granted by Mississippi Statute, the Board has the authority to establish and change premium rates for the participants, employers and other contributing entities. An outside consulting actuary advises the Board regarding changes in premium rates. If premium rates are changed, they generally become effective at the beginning of the next calendar year or next fiscal year.

Plan participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to the Plan. If the assets of the Plan were to be exhausted, participants would not be responsible for the Plan's liabilities.

At June 30, 2018, the Plan provided health coverage to 327 employer units, with approximately 137,000 primary participants (not including dependents). Approximately 55,000 dependents participated in the Plan as well.

Benefits

A provider network arrangement is available for health benefits. According to this arrangement, network providers agree to accept amounts for covered services that do not exceed the charges allowed by the Plan. Therefore, the network provider can only expect to receive payment from the participant for the charges allowed by the network agreement.

The Plan offers a Base option and a Select option for health benefits for non-Medicare participants. A member who elects the Select option is responsible for the in-network calendar year medical deductible of $1,000 for individuals and $2,000 for families. Once the medical deductible is met, the Plan begins to pay a percentage of the allowable charge for covered medical expenses.

Services when using network providers and non-network providers are covered at 80% and 60%, respectively, after the appropriate deductibles. The Plan reimburses allowed medical charges at 100% once the member has reached $2,500 and $3,500 per member coinsurance/copayment maximum for network providers and non-network providers, respectively.

A member who elects the Base option is responsible for the calendar year medical deductible of $1,800 for individuals and $3,000 for families. Once the medical deductible is met, the Plan begins to pay a percentage of the allowable charge for covered medical expenses. Services when using network provider and non-network providers are covered at 80% and 60%, respectively, after the appropriate deductibles. The Plan reimburses allowed charges at 100% once the member has reached $2,500 and $3,500 per member coinsurance/copayment maximum for network providers and non-network providers, respectively, and $5,000 and $7,000 per family coinsurance/copayment maximum for network providers and non-network providers, respectively.

In addition, for both coverage options, when using non-network providers, the member is responsible for the excess of billed charges over allowed charges.

A member who elects the Select option is also responsible for the calendar year pharmacy deductible of $75. A member who elects the Base option is responsible for the calendar year deductible of $1,800 for individuals and $3,000 for families, which can be comprised of both medical and pharmacy claims. In addition to the applicable deductibles, members are responsible for the copayments. Medications are categorized as generic, preferred brand or nonpreferred brand. When purchasing generic medications from a network provider, the member is responsible for a copayment of up to $12, depending on a 30-day supply. When purchasing preferred brand medications from a network provider, the member is responsible for a copayment of up to $45, depending on a 30-day supply. When purchasing nonpreferred brand medications from a network provider, the member is responsible for a copayment of up to $100, depending on a 30-day supply.

Basic life insurance benefits for active employees are equal to two times the annual salary, raised to the next higher thousand, with a minimum amount of $30,000 and a maximum of $100,000.

Retirees may continue their term life insurance coverage at a reduced benefit level of $5,000, $10,000 or $20,000. Participating employees who retired prior to July 1, 1999, are limited to benefit levels of $2,000, $4,000 or $10,000.

Totally disabled employees approved for continued coverage by Minnesota Life can continue group life insurance coverage to age 65 with the same amount of term life insurance coverage they have as an active employee.

Dependents are not eligible for life insurance coverage.

Coverage similar to a Medicare supplement benefit plan is available to those retired participants and their dependents who are eligible to enroll in Medicare, where Medicare is the primary payer. This coverage provides for reimbursement of Medicare-eligible expenses for the amounts not paid by Medicare. Medicare expenses are generally reimbursed at 100% of eligible Medicare expenses not previously reimbursed by Medicare. The Plan only provides benefits for covered expenses outlined in the Plan Document.

The Plan does not provide prescription drug coverage for Medicare eligible retirees, Medicare eligible surviving spouses or Medicare eligible dependents of retirees and surviving spouses.

All medical and pharmacy benefits for the Plan are processed and paid by third-party administrators (TPAs). Life benefits are provided by a life insurance carrier who is the underwriter of the group term life insurance policy.

A summary of available coverage and eligible groups is as follows:

	Active Employee	Non-Medicare Retirees	Dependents	COBRA	Medicare Retirees
Medical	X	X	X	X	X
Pharmacy	X	X	X	X	
Life	X	X			X

Plan Termination

The Plan was created by the State Legislature and could be terminated by the same body.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The Plan is accounted for by the State of Mississippi in Funds 3315300000, 3315400000, 3322000000, 3322200000, 8820500000 and 8822000000. The Plan's financial statements have been prepared on the accrual basis of accounting.

The Plan has adopted for reporting purposes Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. The Plan is deemed to be a stand-alone risk-sharing public entity risk pool under the provisions of GASB 10. This statement requires public entity risk pools to account for their activities as a business-type activity.

Basis of Presentation

The financial statements present only the financial statements of the Plan and do not purport to, and do not, present fairly the financial position of the State of Mississippi as of June 30, 2018, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including claims and benefits payable, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Claims and Benefits Payable

The Plan establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies, depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverage of such general liabilities. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation, because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made.

The medical, pharmacy and life benefits payable include an estimate of claim processing expenses associated with paying claims, which have been incurred but not yet paid. The length of time for which costs must be estimated depends on the coverage involved.

Unearned Revenue

Unearned revenue represents premiums for insurance collected in advance of the coverage period.

Premiums

Premiums are recognized in the period when the benefit coverage is provided. Premiums are due monthly from the employers or participants based on the rates adopted by the Board.

Minimum Net Position

At June 30, 2018, the Plan has no legally required minimum net position. However, the Board requires the Plan to maintain a minimum amount of net position for solvency purposes. The Board has elected the Plan to hold in surplus an amount at least equal to approximately one-half of one month's plan expenditures based upon the average monthly expenditures for the last 12 months. The minimum net position required by the Board at June 30, 2018, was approximately $32,600,000.

Pharmacy Rebate

Under the Plan's agreement with its pharmacy benefit manager, the Plan receives 100% of manufacturers' rebates received by the pharmacy benefit manager related to Plan claims. Such rebates are treated as a reduction in claims and benefits.

Administrative Expenses

Administrative expenses are primarily related to the Plan's procurement of professional services, including fees paid to TPAs to process and pay benefits which are reflected in the accompanying statement of revenues, expenses and changes in net position as contractual services.

The Plan does not record deferred acquisition costs, since administrative expenses are primarily maintenance expenses and not acquisition expenses.

Note 3: Restatement of Prior Year's Financial Statements

In the prior year, the Plan's due from other governments and transfers contained errors. An adjustment of $20,000,000 applicable to 2017 has been made to reduce beginning net position. This adjustment reduced prior year change in net position by $20,000,000.

Note 4: Cash and Cash Equivalents

Cash and cash equivalents include equity in the State's internal investment pool and a bank account. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Plan's deposits may not be returned or the Plan may not be able to recover collateral securities in the possession of an outside party. None of the Plan's cash and cash equivalents is exposed to custodial credit risk.

The Plan is authorized by the Board and state statute to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U.S. Treasury bills and notes, and repurchase agreements. Investment policy for the Plan is governed by State statute [Section 27-105-33, Mississippi Code Ann. (1972)].

Equity in the State's Internal Investment Pool

Equity in the State's internal investment pool is cash equity with the Office of the State Treasurer of the State of Mississippi (the State Treasurer) and consists of pooled demand deposits and investments recorded at fair value. The State Treasurer is authorized to invest all excess treasury funds of the State under Section 27-105-33, Mississippi Code Ann. (1972). Amounts on deposit with the State Treasurer are maintained in a pooled account, which is required by Mississippi statutes to be insured or collateralized. The amount of collateral securities required to be pledged to secure public deposits is established by rules and regulations promulgated by the State Treasurer. In accordance with the State Treasurer's policies, the market value of collateral securities to be pledged by financial institutions through the State Treasurer's Office must be 105% of the carrying value of the amount on deposit, less any federal insurance coverage.

Cash

Cash includes amounts on deposit with a Mississippi financial institution. Section 27-105-5, Mississippi Code Ann. (1972) authorizes the State Treasurer to implement a statewide collateral pool program, which secures all state and local public funds deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer as pledgee of all public funds to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

State of Mississippi

State and School Employees' Life and Health Insurance Plan

Notes to Financial Statements

June 30, 2018

Note 5: Claims and Benefits Payable

As discussed in *Note 2*, the Plan established a liability for both reported and unreported insured events, which included estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those liabilities for and during the years ended June 30, 2018 and 2017:

	Year Ended June 30, 2018			
	Medical	**Pharmacy**	**Life**	**Total**
Unpaid claims and claims adjustment expenses at beginning of year	$ 56,194,865	$ 9,111,325	$ 5,393,701	$ 70,699,891
Incurred claims and claims adjustment expenses				
Provision for insured events	512,661,429	208,991,114	14,854,089	736,506,632
Payments (receipts)				
Claims and claims adjustment expenses attributable to				
Insured events of the current year	505,830,054	184,966,077	14,135,995	704,932,126
Insured events of prior years	7,361,566	24,385,413	-	31,746,979
	513,191,620	209,351,490	14,135,995	736,679,105
Total unpaid claims and claims adjustment expenses at end of year	$ 55,664,674	$ 8,750,949	$ 6,111,795	$ 70,527,418

	Year Ended June 30, 2017			
	Medical	**Pharmacy**	**Life**	**Total**
Unpaid claims and claims adjustment expenses at beginning of year	$ 50,024,742	$ 8,675,476	$ 5,393,701	$ 64,093,919
Incurred claims and claims adjustment expenses				
Provision for insured events	526,521,762	197,327,882	14,676,755	738,526,399
Payments (receipts)				
Claims and claims adjustment expenses attributable to				
Insured events of the current year	490,182,586	161,053,663	14,676,755	665,913,004
Insured events of prior years	30,169,053	35,838,370	-	66,007,423
	520,351,639	196,892,033	14,676,755	731,920,427
Total unpaid claims and claims adjustment expenses at end of year	$ 56,194,865	$ 9,111,325	$ 5,393,701	$ 70,699,891

Note 6: Related Party Transactions

Amounts are transferred between the Plan's funds and other funds of the State to facilitate payments of expenses and maintain desired operating balances in the Plan. Transfers represent flows of assets between funds without equivalent flows of assets in return and without a requirement for repayment. In accordance with governmental accounting standards, such transfers are reported as "amounts paid to other state funds" in the Plan's stand-alone financial statements. During 2018, transfers of $2,100,000 from the Plan were made to other state funds for administrative purposes. Additionally, a trust was created by the Board in June 2018 for the post-retirement benefits other than pensions associated with the Plan and was funded with a $1,000,000 transfer. This trust is not included with the Plan financial statements but is reported with other fiduciary funds of the State of Mississippi.

Note 7: Premium Deficiency Reserve

A premium deficiency reserve is recorded at the end of the year when the anticipated costs of settling claims for the following year are in excess of the anticipated premium receipts for the following year. Anticipated premium receipts are projected based on the premium rates adopted by the Board for the following plan year and current enrollment levels. Incurred claims for subsequent years are projected based on current year incurred claims, increased for anticipated inflation rates. A premium deficiency reserve of $105,100,000 was in place at June 30, 2018, and is included in unrestricted net position.

Note 8: Risks and Uncertainties

As described in *Note 2*, the estimates of claims and benefits payable are reported based on certain assumptions pertaining to interest rates, health care inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Note 9: Commitments and Contingencies

In the normal course of operations, there are various legal actions and proceedings pending against the Plan. In management's opinion, the ultimate liability, if any, resulting from these legal actions will not have a material adverse effect on the Plan's financial position, changes in net position or liquidity.

According to the Plan Document, all claims must be reported within 12 months of the day that the services were provided. The Plan is not aware of any material claims that were denied or paid improperly that should be reserved for in the financial statements. To the extent such claims exist, the Plan may be responsible for payment.

Note 10: Postemployment Benefits Other Than Pensions

Postemployment benefits other than pensions (OPEB) represent the portion of the actuarial present value of projected health care benefit payments that are attributed to past periods of employee service rendered as determined under the provisions of GASB No. 75 for employers and GASB No. 74 for plans. Postemployment benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service. Prior to an active employee's full eligibility date, the postemployment benefit liability is the portion of the expected postemployment benefit liability that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postemployment benefit liability is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

The postemployment benefit liability is a liability of the State of Mississippi and other participating employers and not of the Plan. Therefore, the postemployment benefit liability is not recognized in the accompanying financial statements.

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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*

Independent Auditor's Report

Members of the State of Mississippi State and School
Employees' Health Insurance Management Board
State of Mississippi State and School Employees'
Life and Health Insurance Plan
Jackson, Mississippi

We have audited, 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, the financial statements of the State of Mississippi State and School Employees' Life and Health Insurance Plan (the Plan) which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2019, which contained *Emphasis of Matters* paragraphs regarding the entity reflected in the financial statements and the correction of an error and *Other Matter* paragraphs regarding the omission of required supplementary information for management's discussion and analysis and a schedule of ten-year revenue and claims development information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 Plan's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-005 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's 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*.

The Plan's Response to Finding

The Plan's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan'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 Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
March 14, 2019

State of Mississippi

State and School
Employees' Life and Health Insurance Plan
Schedule of Findings and Responses
June 30, 2018

Reference Number	*Finding*
2018-005	***Criteria or Specific Requirement –*** Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of the Plan.

Condition – In the prior year, the Plan's financial statements contained an error in transfers and due from other governments, which resulted in a misstatement of prior year's financial statements.

Context – Errors of $20,000,000 were reported in prior year accounting for transfers.

Effect – A restatement of beginning net position was required to correct the financial statements of the Plan for the error.

Cause – Initial recording and reconciling of interfund transfers and due to and from other funds accounts did not properly eliminate for the Plan. Subsequent to the completion of GAAP Package Reporting by the Plan, Mississippi Department of Finance and Administration Office of Financial Reporting made a journal entry in the reconciliation of these accounts that did not get reported correctly in the Plan's external financial statements. Further, this entry was not properly communicated to the Plan's management or to the external auditors for proper and timely inclusion in the external financial statements.

Recommendation – Plan management should implement a process, whereas the financial reporting process, including the reconciliation of interfund transfers and due to and due from other funds accounts, is subject to sufficient review and approval to prevent future errors.

Views of Responsible Officials and Planned Corrective Actions – Plan management concurs with this finding. We have addressed GAAP packet training with new accounting staff and will implement an enhanced review process to ensure all interfund transfers and due to and due from accounts are properly reconciled.

BKD
CPAs & Advisors

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Members of the State of Mississippi State and School Employees'
Health Insurance Management Board and Management
State of Mississippi State and School Employees'
Life and Health Insurance Plan
Jackson, Mississippi

As part of our audit of the financial statements of the State of Mississippi State and School Employees' Life and Health Insurance Plan (the Plan) as of and for the year ended June 30, 2018, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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

An audit performed 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, is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the Plan taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Plan's significant accounting policies are described in *Note 2* of the financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following area involves significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Claims and benefits payable

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Restatement of prior year financial statements
- Claims and benefits payable

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. No audit adjustments were proposed that were not recorded by management of the Plan.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Claims payable
- Correction of prior year net position

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Other Material Communication

Listed below is another material communication between management and us related to the audit:

- Management representation letter (attached)

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Plan as of and for the year ended June 30, 2018, 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, we considered the Plan's internal control over financial reporting (internal control) 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 the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 of the Plan's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 Plan's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matter that we consider to be a material weakness.

Material Weakness

Refer to the 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* - Independent Auditor's Report.

This communication is intended solely for the information and use of Members of the State of Mississippi State and School Employees' Health Insurance Management Board, management and others within the Plan, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

March 14, 2019

STATE OF MISSISSIPPI
GOVERNOR PHIL BRYANT

DEPARTMENT OF FINANCE AND ADMINISTRATION

LAURA D. JACKSON
EXECUTIVE DIRECTOR

March 14, 2019

BKD, LLP
Certified Public Accountants
190 East Capitol Street, Suite 500
Jackson, Mississippi 39201-2190

We are providing this letter in connection with your audit of the State of Mississippi State and School Employees' Life and Health Insurance Plan (the Plan) which is accounted for in funds 3315300000, 3315400000, 33220000000, 3322200000, 8820500000, and 8822000000 of the State of Mississippi and which represent all funds of the Plan as of and for the year ended June 30, 2018. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated September 4, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. We believe the Plan is correctly reported as a stand-alone risk-sharing public entity risk pool under the provisions of GASB 10.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes. The Plan has restated its 2017 financial statements through an adjustment to beginning net position to conform with accounting principles generally accepted in the United States of America. Management has provided you with all relevant information regarding the restatement. We are not aware of any other known matters that require correction in the financial statements.

5. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of the State of Mississippi State and School Employees Health Insurance Management Board meetings

   (e) All significant contracts.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by plan procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets or liabilities.

8. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Plan received in communications from participants, former participants, regulators, third-party servicers or others.

10. We have disclosed to you the identity of the Plan's related parties and all the related party transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand the term related party refers to an affiliate; employer, management, fiduciaries, and members of their immediate families, and any other party with which the Plan may deal if the Plan can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with the Plan.

11. Except as reflected in the financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial records.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the date of the statement of net position through the date of this letter requiring adjustment or disclosure in the financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating agreements

    (g) Guarantees, whether written or oral, under which the Plan is contingently liable.

12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

13. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

14. Adequate allowances have been provided for any material losses from uncollectible receivables.

15. The Plan Document dated January 1, 2018 has been provided to you as has the actuarial valuation as of June 30, 2018 prepared by Wm. Lynn Townsend, FSA, MAAA.

16. The Plan provisions at June 30, 2018 are the same as those at the actuarial valuation date.

17. The Plan has made no investments during the year that violate the terms of the Plan.

18. The participants' data that we provided the Plan's actuary for the purposes of his actuarial determination of the health and life insurance claims liabilities as of June 30, 2018 and other actuarially determined amounts in the financial statements were complete.

19. We agree with the actuarial methods and assumptions that the actuary used in his June 30, 2018 actuarial valuation and know of nothing that would make such methods or assumptions inappropriate in the circumstances.

20. We have informed you of the existence of any unrecorded transactions, side agreements or other arrangements (either written or oral).

21. Except as disclosed in the financial statements, the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements have not been changed since the previous year.

22. Except as disclosed in the financial statements, the Plan has:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.

23. The financial statements disclose all significant estimates known to us. Significant estimates are estimates at the date of the statement of net position which could change materially within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

24. With respect to deposit and investment activities:

    (a) All deposit, repurchase, and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements

    (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.

    (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledge

(d) We believe the GAAP Package Reporting is complete and accurate as of and for the year ended June 30, 2018 and that no journal entries have been made by the State subsequent to completion of that document that have not been properly reflected therein.

25. With respect to any nonattest services you have provided us during the year, including drafting the financial statements:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

    (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    (d) We have evaluated the adequacy of the services performed and any findings that resulted.

26. We have reviewed the reports of all transactions processed by third-party servicers, and, based on our review, we believe the transactions shown in the reports are valid and in accordance with our instructions to the third-party processor. We also have had no communications from any of the Plan's service organizations regarding any fraud, noncompliance with laws and regulations or uncorrected misstatements.

27. We have apprised you of all communications, written or oral, with regulatory agencies concerning the operation of the plan.

28. We have elected to omit management's discussion and analysis and the schedule of ten year revenue and claims development information, which is supplementary information required by the Governmental Accounting Standards Board. We understand you will include an emphasis of matter paragraph in your opinion related to these omissions.

Richard D Self

Richard D. Self
State Insurance Administrator
DFA – Office of Insurance

Cindy Bradshaw

Cindy Bradshaw
Deputy Director
DFA – Office of Insurance

STATE OF MISSISSIPPI

OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR

April 4, 2019

BKD, LLP
Certified Public Accountants
190 East Capitol Street, Suite 500
Jackson, MS 39201-2190

We are providing this letter in connection with your performance of agreed-upon procedures on the census data related to the State of Mississippi State and School Employees' Life and Health Insurance Plan (OPEB Plan) as of and for the years ended June 30, 2016 and June 30, 2017. We confirm, to the best of our knowledge and belief, the following:

We are responsible for selecting the criteria applied to the subject matter and for determining that such criteria are appropriate for our purposes.

1. The procedures described in your report are the procedures finally agreed upon by us. Any differences between the procedures described in the report and those described in the engagement letter are approved by us.

2. We acknowledge and agree that we are responsible for the sufficiency of the agreed-upon procedures, including the nature, timing and extent thereof, for our purposes.

3. We have responded fully and truthfully to all your inquiries.

Stephanie C. Palmertree

Stephanie Palmertree, CPA
Director, Financial and Compliance Division

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