



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.

FINANCIAL REPORT

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS'
COMPENSATION TRUST

JACKSON, MISSISSIPPI

JUNE 30, 2020

Presented by: Harper, Rains, Knight & Company, P.A.
1052 Highland Colony Parkway, Suite 100
Ridgeland, Mississippi 39157
601-605-0722
www.hrkcpa.com

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required supplementary information)	4
BASIC FINANCIAL STATEMENTS	
Balance sheets	7
Statements of revenues, expenditures and changes in fund balance	8
Notes to financial statements	9
REQUIRED SUPPLEMENTARY INFORMATION	
Loss development information (unaudited)	27
Note to required 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



Harper, Rains, Knight & Company

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

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Mississippi State Agencies Self-Insured Workers' Compensation Trust (the "Trust"), a component unit of the State of Mississippi, as of and for the years ended June 30, 2020 and 2019, and the related notes to 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

The Trust's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States. This includes management's 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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)

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 Trust, as of June 30, 2020 and 2019, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and loss development information and related notes on pages 4-6 and 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020 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.

Hopewell, Raines, Knight & Company, P.A.

September 30, 2020

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2020 and 2019

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, 2020. 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 \$35,718,936, which was a decrease of \$2,811,994, or 7.30%, from the prior fiscal year. Current liabilities were \$8,870,936, a decrease of \$1,228,994 over the 2019 amount. The long-term portion of estimated claim liabilities decreased \$1,583,000, or 5.57%, to \$26,848,000 at June 30, 2020. The decrease in total liabilities was a result of a decrease in the actuarially determined estimated liability for claims in the current fiscal year of \$2,233,000 and a decrease in payable for securities of \$578,994 related to investment transactions with trade dates before June 30 that were settled after June 30.
- Total assets for the Trust at year-end were \$35,718,936, which was a decrease of \$2,811,994 from the prior fiscal year. The unrestricted fund net position is reported as zero on the 2020 and 2019 balance sheets. This is a result of the Trust recording a premium deficiency receivable of \$688,862 as of 2020 and \$3,145,029 as of 2019, as required by Governmental Accounting Standards Board Statement No. 30. This adjustment is required for public entity risk pools when their charges to participating entities are not sufficient to cover the full cost of claims over a reasonable period of time.
- Total operating expenditures decreased \$2,395,234, or 20.34%, which relates almost exclusively to an increase in net paid and incurred claims.
- Operating revenue decreased \$2,395,234, or 20.34% which relates to a decrease in the premium deficiency receivable and earned contributions.
- The premium deficiency receivable decreased \$2,456,167 for the current fiscal year and is reported as a premium deficiency decrease in the operating revenues of the Trust.

Overview of Financial Statements

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

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2020 and 2019

Government-Wide Financial Statements

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

Fund Financial Statements

As a component unit of the State of Mississippi, the Trust only presents fund financial statements as of June 30, 2020 and 2019. The financial statements of the Trust include the Balance Sheets and Statements of Revenues, Expenditures and Changes in Fund Balance for the years ended June 30, 2020 and 2019. The Balance Sheets summarize and describe the assets, liabilities, and financial condition of the Trust. The Statements of Revenues, Expenditures and Changes in Fund Balance provides fiscal year totals for the revenues, expenditures, and resulting changes in fund balance experienced by the Trust. Each of these statements is presented to reflect the current financial status and the results of operations of the Trust as of and for the years ended June 30, 2020 and 2019.

Overall Financial Position Analysis/Balances and Transactions Analysis

The Trust's assets consist primarily of investments in high quality 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 fund balance is reported as zero in the financial statements as fund deficit is receivable/payable from participating agencies in an amount equal to the fund 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 2020, the premium deficiency receivable decreased \$2.46 million from the 2019 reported balance of \$3.15 million due to a decrease in claims paid and incurred, net of reinsurance recoveries.

The premium discount approved by the Board of Trustees was 25% for 2020 and 2019, respectively. Operating expenditures decreased for the period ended June 30, 2020, the result of a decrease in claims paid. Premium amounts are actuarially determined annually and are subject to moderate fluctuations. The claims and claims adjustment expenses likewise fluctuate from year to year, affected to some degree by large claims settlements, the timing of which is somewhat unpredictable.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2020 and 2019

Currently Known Facts

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

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

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

As a public entity, the Trust is somewhat protected from the negative impacts of the Coronavirus (COVID-19) pandemic. In the event member agencies may become unable to pay assessments timely (or at all), the Trust has sufficient reserves to postpone collections without interrupting services. Should this situation occur, the Board of Trustees is poised to take appropriate action to ensure continued financial stability and coverage availability for the member agencies. The Trust's investment portfolio consists of cash and collateralized investments, with the majority of the investments being issued or guaranteed by the U.S. Government. The Board of Trustees continues to work with our investment managers to mitigate the effects of the pandemic on the Trust's assets to the extent possible. The Trust maintains adequate surplus to overcome market fluctuations resulting from COVID-19.

Financial Contact

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

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

BALANCE SHEETS
June 30, 2020 and 2019

ASSETS		
	2020	2019
Current assets		
Cash and cash equivalents	\$ 5,820,659	\$ 7,299,438
Funds held by others	1,049,727	1,135,148
Accrued interest receivable	175,228	190,600
Total current assets	<u>7,045,614</u>	<u>8,625,186</u>
Investments	27,984,460	26,760,715
Premium deficiency receivable	688,862	3,145,029
Total non-current assets	<u>28,673,322</u>	<u>29,905,744</u>
Total assets	<u>\$ 35,718,936</u>	<u>\$ 38,530,930</u>
LIABILITIES AND FUND BALANCE		
Current liabilities		
Estimated liability for claims and		
claim adjustment expenses, net - current portion	\$ 8,842,000	\$ 9,492,000
Payable for securities	28,936	607,930
Total current liabilities	<u>8,870,936</u>	<u>10,099,930</u>
Long-term liabilities		
Estimated liability for claims and claim adjustment		
expenses, net - long-term portion	26,848,000	28,431,000
Total liabilities	35,718,936	38,530,930
Unrestricted fund balance	-	-
Total liabilities and fund balance	<u>\$ 35,718,936</u>	<u>\$ 38,530,930</u>

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

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

For the years ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Earned contributions, net of reinsurance premiums	\$ 10,602,538	\$ 11,292,691
Premium deficiency decrease	(2,456,167)	(1,279,365)
Interest income, net of investment fees	744,453	759,116
Realized and unrealized gains on investments	469,770	1,002,573
Other income	19,187	-
Total operating revenue	<u>9,379,781</u>	<u>11,775,015</u>
Operating expenditures:		
Claims paid and incurred, net of reinsurance recoveries	8,228,017	10,639,611
Administrative fees	868,718	868,718
Risk control fees	90,166	87,855
Reimbursements to State of Mississippi for:		
Allocated expenses	145,681	137,950
Actuarial fees	8,660	8,000
Accounting and legal	12,500	13,735
Other	26,039	19,146
Total operating expenditures	<u>9,379,781</u>	<u>11,775,015</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>
Transfers	<u>-</u>	<u>-</u>
Change in fund balance	-	-
Fund net balance - unrestricted, beginning	<u>-</u>	<u>-</u>
Fund net balance - unrestricted, ending	<u>\$ -</u>	<u>\$ -</u>

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

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Organization and Operations

The Trust was established July 1, 1990 by the State of Mississippi as a group workers' compensation self-insurance trust for qualifying state agencies. The Trust administers the Mississippi State Agencies Self-Insured Workers' Compensation Pool (the "Pool"). As of June 30, 2020 and 2019, ninety-eight (98) and ninety-nine (99) agencies of the State of Mississippi are participants in the Pool, respectively.

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 fund balance; and unrestricted fund balance. Interest income and net increase in the fair value of investments, which are normally classified as non-operating revenue in most governmental funds, are classified as operating revenue since these transactions are an integral part of the Trust's ongoing operations.

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

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

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Revenue Recognition

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

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

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 \$2,456,167 in 2020 and \$1,279,365 in 2019.

Inter-fund Transfers

Inter-fund transfers represent transactions with a fund outside of the Trust. Inter-fund transactions are reflected as contribution revenue, services provided, reimbursements, or transfers. Contributions received from participating agencies are treated as revenue. Services provided are treated as expenditures, such as expenditures allocated by the Department of Finance and Administration to the Trust. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related payable as a reimbursement. All other inter-fund transactions are treated as transfers. The estimated liability for claims is actuarially determined based on the ultimate cost of settling claims and includes the effects of inflation and other societal and economic factors.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimated Liability for Claims and Claim Adjustment Expenditures

Allocated claim adjustment expenditures are included in the estimated liability for claims by the Trust's claims administrator and its actuary. Unallocated claim adjustment expenditures are not accrued in the accompanying financial statements as the majority of these expenses are incurred as a percentage of premiums, regardless of the claims activities of the Trust. The estimated liability for claims is presented net of estimated reinsurance recoverables (as disclosed in Note 6) on a discounted basis. The Trust's actuary used a discount rate of 4% in computing the present value of claims liabilities for the years ended June 30, 2020 and 2019. The discounts applied to the gross liability were \$7,610,000 and \$7,653,000 at June 30, 2020 and 2019, 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 \$18,731,000 at June 30, 2020 and \$20,730,000 at June 30, 2019.

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 \$24,569,000 at June 30, 2020 and \$24,846,000 at June 30, 2019.

Investments

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

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

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Payable for Securities

Investments are reported as an asset of the Trust on the trade date. As such, amounts owed for the securities are not submitted to the seller until the settlement date. The payable for securities is \$28,936 at June 30, 2020 and \$607,930 at June 30, 2019.

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 the internal investment pool is cash invested with the Treasurer of the State of Mississippi 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 \$198,594 and \$1,403,521 as of June 30, 2020 and 2019, 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 and the fair market measurement of investments. 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.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit Risk (continued)

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. Due to recent stock market volatility related to the COVID-19 pandemic, it is anticipated the financial market disruption may have a negative impact on the Trust's investment values. The pandemic may also have an impact on the Trust's ability to collect premium assessments from member agencies.

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, 2020, which is the date the financial statements were available to be issued.

NOTE 2 • INVESTMENTS

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

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

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

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 2 • INVESTMENTS (continued)

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

As of June 30, 2020, the Trust had the following investments:

	Carrying Value	Fair Value	Interest Rate	Maturity Date
<u>U. S. Government:</u>				
U. S. Treasury Note	\$ 1,409,349	\$ 1,430,731	2.125%	May 31, 2021
U. S. Treasury Note	1,453,180	1,456,789	0.370%	July 31, 2021
	<u>2,862,529</u>	<u>2,887,520</u>		

Agencies of

U. S. Government:

Fannie Mae Pool	\$ 24,697	\$ 24,009	4.041%	September 1, 2020
Small Business Administration	163,984	163,433	3.215%	September 10, 2020
Fannie Mae Pool	227,334	226,692	4.283%	January 1, 2021
Small Business Administration	21,014	20,066	6.340%	March 1, 2021
Small Business Administration	214,085	215,048	2.877%	September 10, 2021
Small Business Administration	265,398	266,018	2.766%	March 10, 2022
Small Business Administration	230,628	234,516	1.240%	May 1, 2022
Small Business Administration	37,597	37,005	5.310%	August 1, 2022
Small Business Administration	325,723	333,870	2.245%	September 10, 2022
Small Business Administration	65,733	65,834	1.010%	November 1, 2022
Small Business Administration	83,986	84,562	1.110%	January 1, 2023
Freddie Mac Multifamily				
Securitization	550,746	568,951	3.320%	February 25, 2023
Small Business Administration	406,507	413,840	2.351%	March 10, 2023
Fannie Mae-Aces	410,425	429,624	3.000%	April 25, 2023
Small Business Administration	207,627	210,793	1.100%	May 1, 2023
Fannie Mae Pool	548,832	563,062	2.860%	July 1, 2023
Small Business Administration	110,905	113,472	4.350%	July 1, 2023
Freddie Mac Multifamily				
Securitization	535,927	555,464	1.051%	August 25, 2023
Small Business Administration	75,057	75,955	3.644%	September 10, 2023

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 2 • INVESTMENTS (continued)

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies of				
<u>U. S. Government:</u>				
Small Business Administration	288,723	291,117	4.920%	October 1, 2023
Small Business Administration	215,970	220,724	1.880%	November 1, 2023
Small Business Administration \$	251,619	\$ 257,183	2.140%	January 1, 2024
Small Business Administration	306,625	311,100	3.191%	March 10, 2024
Small Business Administration	265,909	273,433	1.980%	May 1, 2024
Small Business Administration	211,214	212,529	5.180%	May 1, 2024
Fannie Mae Pool	363,654	386,076	5.030%	May 1, 2024
Federal National				
Mortgage Association	356,952	373,069	1.005%	May 25, 2024
Small Business Administration	132,998	136,868	5.520%	June 1, 2024
Small Business Administration	376,726	383,002	3.015%	September 10, 2024
Small Business Administration	93,298	96,035	4.860%	October 1, 2024
Small Business Administration	188,277	194,276	2.030%	November 1, 2024
Small Business Administration	175,147	181,386	1.890%	January 1, 2025
Small Business Administration	625,091	634,235	2.517%	March 10, 2025
Freddie Mac Gold				
Pool	173,809	173,603	7.645%	May 1, 2025
Small Business Administration	138,296	140,129	5.110%	August 1, 2025
Small Business Administration	306,021	322,891	2.829%	September 10, 2025
Small Business Administration	259,444	267,822	1.660%	November 1, 2025
Small Business Administration	442,301	457,088	1.800%	January 1, 2026
Small Business Administration	326,285	337,912	1.840%	March 1, 2026
Small Business Administration	566,174	586,627	2.507%	March 10, 2026
Fannie Mae Pool	237,572	242,736	2.000%	September 1, 2026
Ginnie Mae I Pool	337,854	355,197	3.750%	October 15, 2026
Small Business Administration	445,896	466,869	1.800%	November 1, 2026
Small Business Administration	306,690	320,920	2.170%	November 1, 2026
Freddie Mac Multifamily				
Securitization	569,436	569,285	2.617%	December 25, 2026
Ginnie Mae II Pool	89,922	90,878	3.000%	January 20, 2027
Small Business Administration	340,476	355,288	2.630%	March 1, 2027
Small Business Administration	534,757	577,266	2.845%	March 10, 2027

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 2 • INVESTMENTS (continued)

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies of				
<u>U. S. Government:</u>				
Small Business Administration	\$ 602,486	\$ 629,640	2.518%	September 10, 2027
Small Business Administration	275,809	288,229	5.490%	March 1, 2028
Small Business Administration	511,731	548,806	3.187%	March 10, 2028
Small Business Administration	208,974	220,462	3.180%	May 1, 2028
Small Business Administration	517,400	556,285	3.548%	September 10, 2028
Small Business Administration	341,831	364,423	2.950%	January 1, 2029
Small Business Administration	414,960	443,655	3.113%	March 10, 2029
Small Business Administration	324,401	336,238	2.660%	May 1, 2029
Small Business Administration	495,805	503,455	1.880%	June 1, 2029
Small Business Administration	348,273	360,926	2.240%	July 1, 2029
Small Business Administration	335,000	346,613	2.078%	March 10, 2030
Federal National				
Mortgage Association	499,847	500,307	1.004%	November 25, 2035
Federal National				
Mortgage Association	366,025	366,115	2.535%	November 25, 2035
Government National				
Mortgage Association	66,998	67,108	2.150%	May 16, 2039
Government National				
Mortgage Association	4,321	4,303	1.899%	March 16, 2040
Government National				
Mortgage Association	156,329	156,944	1.950%	February 16, 2044
Government National				
Mortgage Association	49,790	49,599	2.500%	December 16, 2044
Federal National				
Mortgage Association	244,783	248,061	2.180%	January 25, 2046
Fannie Mae Pool	491,063	487,761	3.500%	December 1, 2049
Fannie Mae Pool	430,077	432,720	2.500%	July 1, 2050
	<u>20,119,244</u>	<u>20,729,408</u>		

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 2 • INVESTMENTS (continued)

	Carrying Value	Fair Value	Interest Rate	Maturity Date
Investments backed by full faith and credit of <u>the U. S. Government:</u>				
New Valley Generation V	\$ 136,580	\$ 131,601	4.929%	January 15, 2021
Private Export Funding	640,173	639,436	4.300%	December 15, 2021
Private Export Funding	305,262	307,597	2.800%	May 15, 2022
Private Export Funding	510,306	563,771	2.450%	July 15, 2024
Vessel Management Services Inc.	206,510	223,936	5.850%	May 1, 2027
Cal Dive I-Title XI, Inc.	207,638	221,623	4.930%	February 1, 2027
Matson Navigation Co.	185,903	175,814	5.273%	July 29, 2029
	<u>2,192,372</u>	<u>2,263,778</u>		
<u>Foreign Investments:</u>				
Hashemite	\$ 601,641	\$ 604,482	2.503%	October 30, 2020
Amal LTD	48,252	46,418	3.465%	August 21, 2021
Aid-Israel	561,890	580,174	5.500%	September 18, 2023
Aid-Israel	561,908	584,499	5.500%	December 4, 2023
Aid-Israel	121,852	129,411	5.500%	April 26, 2024
Lulwa LTD	155,522	158,770	1.888%	February 15, 2025
	<u>2,051,065</u>	<u>2,103,754</u>		
Total investments	<u>\$ 27,225,210</u>	<u>\$ 27,984,460</u>		

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 2 • INVESTMENTS (continued)

As of June 30, 2019, the Trust had the following investments:

	Carrying Value	Fair Value	Interest Rate	Maturity Date
<u>U. S. Government:</u>				
U. S. Treasury Note	\$ 1,356,381	\$ 1,358,965	1.500%	May 31, 2021
U. S. Treasury Note	1,404,736	1,507,358	2.500%	August 15, 2026
	<u>2,761,117</u>	<u>2,866,323</u>		
 <u>Agencies of U. S. Government:</u>				
Small Business Administration	\$ 1,754	\$ 1,695	7.300%	March 1, 2019
Federal Home Loan Mortgage Corporation	27,503	26,693	2.660%	
Small Business Administration	30,503	30,196	3.190%	July 1, 2019
Small Business Administration	10,290	9,940	7.060%	August 1, 2019
Federal National Mortgage Association	321,564	316,952	2.323%	September 26, 2019
Federal Home Loan Mortgage Corporation	35,478	35,305	2.535%	October 1, 2019
Federal Home Loan Mortgage Corporation	146,192	144,038	7.645%	November 1, 2019
Small Business Administration	28,764	27,900	2.860%	March 1, 2020
Federal National Mortgage Association	112,506	112,122	4.601%	April 1, 2020
Small Business Administration	4,788	4,416	7.630%	June 1, 2020
Federal National Mortgage Association	16,411	16,066	4.475%	June 1, 2020
Small Business Administration	309,172	309,392	3.215%	September 1, 2020
Federal National Mortgage Association	80,528	77,669	4.041%	September 1, 2020
Small Business Administration	61,217	61,047	4.860%	September 1, 2020
Federal National Mortgage Association	249,386	235,516	3.300%	October 1, 2020

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 2 • INVESTMENTS (continued)

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Agencies of				
<u>U. S. Government:</u>				
Government National				
Mortgage Association	290,450	295,470	4.879%	January 1, 2021
Small Business Administration	52,504	50,613	6.340%	March 1, 2021
Small Business Administration	475,585	480,155	2.877%	September 1, 2021
Small Business Administration	340,083	340,793	2.766%	March 10, 2022
Small Business Administration	108,805	108,689	1.240%	May 1, 2022
Small Business Administration	66,200	64,291	5.310%	August 1, 2022
Small Business Administration	625,152	640,676	3.644%	September 10, 2022
Small Business Administration	113,570	111,469	1.010%	November 1, 2022
Small Business Administration	128,709	127,380	1.110%	January 1, 2023
Small Business Administration	451,090	457,431	2.351%	March 10, 2023
Government National				
Mortgage Association	517,272	524,517	3.000%	April 25, 2023
Small Business Administration	305,254	304,210	1.100%	May 1, 2023
Small Business Administration	171,216	173,562	2.845%	July 1, 2023
Federal National				
Mortgage Association	278,252	278,109	2.500%	September 1, 2023
Small Business Administration	231,089	235,284	3.644%	September 10, 2023
Small Business Administration	153,423	153,111	1.880%	November 1, 2023
Small Business Administration	117,714	118,365	1.980%	January 1, 2024
Small Business Administration	140,583	141,280	2.140%	January 1, 2024
Small Business Administration	421,659	428,363	3.191%	March 10, 2024
Federal National				
Mortgage Association	374,670	391,619	5.030%	May 1, 2024
Small Business Administration	300,198	299,323	5.180%	May 1, 2024
Small Business Administration	115,828	117,798	4.350%	June 1, 2024
Small Business Administration	417,992	422,300	3.015%	September 10, 2024
Small Business Administration	257,631	259,710	2.030%	November 1, 2024
Small Business Administration	128,501	130,515	5.240%	November 1, 2024
Small Business Administration	450,588	448,373	2.517%	March 10, 2025
Freddie Mac Gold				
Pool	185,705	180,302	2.950%	May 1, 2025

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 2 • INVESTMENTS (continued)

	Carrying Value	Fair Value	Interest Rate	Maturity Date
Agencies of				
<u>U. S. Government:</u>				
Small Business Administration	\$ 94,554	\$ 94,404	5.110%	August 1, 2025
Small Business Administration	393,309	404,132	5.490%	September 10, 2025
Small Business Administration	318,865	320,484	1.660%	November 1, 2025
Small Business Administration	416,376	419,214	1.800%	January 1, 2026
Government National				
Mortgage Association	267,555	281,475	3.890%	January 1, 2026
Small Business Administration	388,749	392,131	1.800%	March 1, 2026
Small Business Administration	265,694	276,216	2.829%	March 10, 2026
Federal National				
Mortgage Association	384,288	394,480	3.750%	October 15, 2026
Small Business Administration	350,169	355,886	1.840%	November 1, 2026
Federal National				
Mortgage Association	120,555	118,450	3.000%	January 20, 2027
Small Business Administration	422,867	432,404	2.170%	March 1, 2027
Small Business Administration	617,741	634,601	2.630%	March 10, 2027
Small Business Administration	639,863	654,766	3.180%	September 10, 2027
Federal National				
Mortgage Association	499,367	511,762	3.000%	October 1, 2027
Small Business Administration	359,950	370,649	4.920%	March 1, 2028
Small Business Administration	236,506	248,184	5.520%	May 1, 2028
Small Business Administration	610,867	642,229	4.108%	March 10, 2028
Small Business Administration	613,482	653,498	2.518%	September 10, 2028
Small Business Administration	550,000	573,216	3.187%	March 10, 2029
Small Business Administration	375,000	388,688	2.507%	January 1, 2029
Small Business Administration	373,865	376,070	3.548%	May 1, 2029
Freddie Mac Multifamily				
Securitization	436,464	435,977	3.113%	November 25, 2035
Government National				
Mortgage Association	109,394	108,916	2.150%	May 16, 2039
Government National				
Mortgage Association	254,607	251,954	1.950%	February 16, 2044

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 2 • INVESTMENTS (continued)

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>Agencies of</u>				
<u>U. S. Government:</u>				
Government National				
Mortgage Association	\$ 359,634	\$ 355,469	1.899%	March 16, 2044
Government National				
Mortgage Association	165,997	164,143	2.500%	December 16, 2044
Federal National				
Mortgage Association	<u>546,345</u>	<u>548,412</u>	2.180%	January 25, 2046
	<u>18,827,842</u>	<u>19,100,465</u>		
Investments backed by				
full faith and credit of				
<u>the U. S. Government:</u>				
New Valley Generation V	\$ 199,995	\$ 191,089	4.929%	January 15, 2021
Private Export Funding	662,807	639,463	4.300%	December 15, 2021
Private Export Funding	507,555	538,590	2.450%	July 15, 2024
Cal Dive I-Title XI, Inc.	231,935	238,620	4.930%	February 1, 2027
Matson Navigation Co.	<u>205,587</u>	<u>210,489</u>	5.273%	July 29, 2029
	<u>1,807,879</u>	<u>1,818,251</u>		
<u>Foreign Investments:</u>				
Aid-Tunisia	\$ 274,000	\$ 273,921	1.686%	July 16, 2019
Hashemite	605,209	604,626	2.503%	October 30, 2020
Amal LTD	86,153	82,039	3.465%	August 21, 2021
Aid-Israel	577,796	571,467	5.500%	September 18, 2023
Aid-Israel	576,862	575,024	5.500%	December 4, 2023
Aid-Israel	124,778	126,714	5.500%	April 26, 2024
Lulwa LTD	186,483	185,390	1.888%	February 15, 2025
Hashemite	<u>541,567</u>	<u>556,495</u>	3.000%	June, 30 2025
	<u>2,972,848</u>	<u>2,975,676</u>		
Total investments	<u>\$ 26,369,686</u>	<u>\$ 26,760,715</u>		

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 3 • FAIR VALUE MEASUREMENTS

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

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.
- Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data 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, 2020 and 2019.

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

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2020:

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 3 • FAIR VALUE MEASUREMENTS (continued)

	Level 1	Level 2	Level 3	Total
U. S. Government	\$ -	\$ 2,887,520	\$ -	\$ 2,887,520
Agencies of U. S. Government	-	20,729,408	-	20,729,408
Investments backed by full faith and credit of				
U. S. Government	-	2,263,778	-	2,263,778
Foreign investments	-	2,103,754	-	2,103,754
Total investments				
at fair value	<u>\$ -</u>	<u>\$ 27,984,460</u>	<u>\$ -</u>	<u>\$ 27,984,460</u>

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
U. S. Government	\$ -	\$ 2,866,323	\$ -	\$ 2,866,323
Agencies of U. S. Government	-	19,100,465	-	19,100,465
Investments backed by full faith and credit of				
U. S. Government	-	1,818,251	-	1,818,251
Foreign investments	-	2,975,676	-	2,975,676
Total investments				
at fair value	<u>\$ -</u>	<u>\$ 26,760,715</u>	<u>\$ -</u>	<u>\$ 26,760,715</u>

NOTE 4 • ESTIMATED LIABILITY FOR CLAIMS

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

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 4 • ESTIMATED LIABILITY FOR CLAIMS (continued)

	2020	2019
Estimated liability for claims and claims adjustment expenses, beginning	\$ 37,923,000	\$ 38,315,000
Incurring claims and claims adjustment expenses:		
Provision for insured events of current year	11,000,000	13,700,000
Decrease in provision for insured events of prior years	(2,814,983)	(2,348,389)
Total incurred claims and claims adjustment expenses before present value adjustment	8,185,017	11,351,611
Claims and claims adjustment expenses paid during the year:		
Attributable to insured events of current year	(3,385,000)	(2,992,000)
Attributable to insured events of prior years	(7,076,017)	(9,463,611)
Total claims and claim adjustment expenses paid	(10,461,017)	(12,455,611)
Present value adjustment	43,000	712,000
Estimated liability for claims and claims adjustment expenses, ending	\$ 35,690,000	\$ 37,923,000

The decrease in the provision of insured events of prior years for 2020 and 2019 is the result of better-than-anticipated claims experience in recent years. Actuarial assumptions can be significantly affected by changes in claim payment patterns.

NOTE 5 • ADMINISTRATIVE CONTRACTS

The Trust contracts with a service bureau for claims administration and risk control consulting services. Administrative and risk control consulting fees under this contract amounted to \$868,718 and \$90,166, respectively, for the year ended June 30, 2020. Administrative and risk control consulting fees amounted to \$868,718 and \$87,855, respectively, for the year ended June 30, 2019.

Funds held in escrow for the future payments of claims amounted to \$1,049,727 and \$1,135,148 as of June 30, 2020 and 2019, respectively.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 6 • REINSURANCE

In accordance with general practice in the insurance industry, the Trust reinsures portions of its workers' compensation insurance risk under excess loss insurance. Depending upon the date of loss, the reinsurance policies cover losses exceeding \$2,500,000 for 2020 and 2019, respectively, per accident for individual claims limited to the statutory workers' compensation limit per accident. Reinsurance premiums for the years ended June 30, 2020 and 2019 were \$332,201 and \$359,768, respectively. During 2020 and 2019, reinsurance recoveries amounted to \$216,604 and \$1,083,423, respectively. The estimated liability for claims and claim adjustment expenses has been decreased for estimated amounts recoverable on excess loss reinsurance of \$13,673,751 at June 30, 2020 and \$12,926,676 at June 30, 2019.

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

NOTE 7 • RELATED PARTIES

All of the contributions received by the Trust are from agencies of the State of Mississippi. The State of Mississippi's Department of Finance and Administration ("DFA") periodically pays expenses for the Trust and is reimbursed for these expenses. The expenses are for actuarial fees, accounting and legal fees, supplies, administrative expenses, personnel costs and other items. Reimbursements of these expenses for the years ended June 30, 2020 and 2019 amounted to \$192,880 and \$178,831, respectively.

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

NOTE 8 • CONTINGENT LIABILITIES

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

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2020 and 2019

NOTE 9 • SIGNIFICANT AGENCIES

During 2020 and 2019, contributions from the Department of Mental Health represented 38% and 38%, respectively, of total contributions. During 2020 and 2019, contributions from the Department of Human Services represented 10% and 12% of total contributions.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net earned required contribution and investment revenues	\$ 15,075	\$ 17,083	\$ 16,703	\$ 17,064	\$ 15,266	\$ 15,713	\$ 14,668	\$ 13,233	\$ 13,054	\$ 11,836
Unallocated expenses	1,259	1,197	1,332	1,256	1,253	1,219	(206)	1,189	1,135	1,152
Gross estimated incurred claims and expenses	17,000	17,000	16,500	17,000	16,000	15,000	15,250	14,200	13,700	11,000
Losses assumed by excess loss reinsurer	-	-	-	-	-	-	-	-	-	-
Net estimated incurred claims and expenses	17,000	17,000	16,500	17,000	16,000	15,000	15,250	14,200	13,700	11,000
Paid (cumulative) as of:										
End of policy year	3,410	3,344	2,976	2,577	3,486	3,423	3,394	3,555	2,992	3,385
One year later	7,052	6,770	6,356	6,252	6,889	7,273	7,921	6,320	5,971	
Two years later	9,031	8,216	8,079	8,112	8,706	8,614	9,717	7,424		
Three years later	10,306	9,156	9,393	8,954	9,590	9,272	11,083			
Four years later	11,262	10,128	10,061	9,445	10,233	9,537				
Five years later	12,031	10,379	10,638	9,766	10,348					
Six years later	12,392	10,581	11,038	10,036						
Seven years later	12,733	10,699	11,235							
Eight years later	12,943	10,741								
Nine years later	13,137									
Re-estimated losses assumed by excess loss reinsurers	-	-	-	-	-	-	-	-	-	-
Re-estimated incurred claims and expenses:										
End of policy year	17,000	17,000	16,500	17,000	16,000	15,000	15,250	14,200	13,700	11,000
One year later	19,000	16,500	16,000	15,000	15,500	15,000	14,750	13,000	12,700	
Two years later	16,500	16,000	14,500	15,000	14,500	13,500	14,300	12,000		
Three years later	15,000	14,000	14,500	13,500	13,500	13,000	14,300			
Four years later	15,000	14,000	13,500	12,000	13,100	12,500				
Five years later	15,000	13,000	12,800	12,000	12,900					
Six years later	14,600	12,500	12,800	12,000						
Seven years later	14,600	12,250	12,800							
Eight years later	14,600	12,000								
Nine years later	14,900									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(2,100)	(5,000)	(3,700)	(5,000)	(3,100)	(2,500)	(950)	(2,200)	(1,000)	-

See Note to Supplementary Information.

MISSISSIPPI STATE AGENCIES
SELF-INSURED WORKERS' COMPENSATION TRUST

NOTE TO SUPPLEMENTARY INFORMATION
Years Ended June 30, 2020 and 2019

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

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



Harper, Rains, Knight & Company

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mississippi State Agencies Self-insured Workers' Compensation Trust (the "Trust"), a component unit of the State of Mississippi, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated September 30, 2020.

Internal Control Over Financial Reporting

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

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

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

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)

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

Compliance and Other Matters

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

Purpose of this Report

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

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

September 30, 2020