



Management's Discussion and Analysis
and Financial Statements
December 31, 2017

Multiple Injury Trust Fund

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Independent Auditor's Report

Special Counsel
Multiple Injury Trust Fund
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Multiple Injury Trust Fund (MITF) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the MITF'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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Multiple Injury Trust Fund, as of December 31, 2017, and the respective changes in financial position thereof for the year 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 on pages 3 through 8 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 inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit 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.

Emphasis of Matter

Net Deficit

As discussed in Note 5, MITF's net position is in a deficit position of approximately \$462,493,000 primarily due to court awards exceeding the apportionment of special tax revenue collected. The opinion is not modified with regards to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2018 on our consideration of the MITF'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 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 MITF's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
June 13, 2018

As management of the Multiple Injury Trust Fund (MITF), we offer readers of the MITF financial statements this overview and analysis of the financial activities for the fiscal years ended December 31, 2017 and 2016.

Financial Highlights

- At December 31, 2017, MITF's liabilities exceeded its assets by \$462.5 million. At December 31, 2016, MITF's liabilities exceeded its assets by \$420.9 million. The 2017 year-end net position increased its deficit by \$41.6 million. The 2016 year-end net position increased its deficit by \$23.6 million from the previous year-end.
- During fiscal year 2017, MITF had revenue of \$48.8 million, which consisted of \$48.7 million from its apportionment from the Oklahoma Tax Commission (OTC) and \$0.1 million from interest income. During fiscal year 2016, MITF had revenue of \$49.4 million, which consisted of \$49.2 million from its apportionment from the Oklahoma Tax Commission (OTC) and \$0.2 million from interest income. The premium assessment was at 6.00% for both years but decreased in fiscal year 2017 due to decreased related premiums.
- At December 31, 2017 long-term liabilities of \$471.4 million related to court awarded claims payable which comprised 98% of the total liabilities. At December 31, 2016 long-term liabilities of \$424.1 million related to court awarded claims payable which comprised 97% of the total liabilities. The increase is due to an increase in court orders.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the MITF's basic financial statements. MITF's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the MITF's finances in a manner similar to a private-sector business.

The statement of net deficit presents information on all of MITF's assets and liabilities, with the difference between the two reported as a net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of MITF is expanding or contracting.

The statements of activities present information showing how MITF's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future periods.

Fund Financial Statements

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheets and the governmental fund statements of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

MITF maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheets and in the governmental fund statements of revenues, expenditures, and changes in fund balances (deficit) for the special revenue fund and the debt service fund, both of which are considered to be major funds.

The special revenue fund accounts for all financial resources of MITF, except for those related to the debt. The debt service fund accounts for the proceeds and payments for principal and interest related to the notes payable.

Notes to Financial Statements

The notes provided additional information that is essential to a full understanding of the data provided in the basic financial statements.

Government-Wide Financial Analysis

MITF's net position at December 31, 2017 and 2016 are reported as follows:

	<u>2017</u>	<u>2016</u>
Current assets	\$ 20,368,400	\$ 16,834,572
Capital assets, net of depreciation	<u>16,480</u>	<u>22,389</u>
Total assets	<u>20,384,880</u>	<u>16,856,961</u>
Current liabilities	46,153,538	40,239,692
Long-term liabilities, net of current portion	<u>436,724,391</u>	<u>397,494,645</u>
Total liabilities	<u>482,877,929</u>	<u>437,734,337</u>
Net Deficit		
Total net deficit	<u><u>\$(462,493,049)</u></u>	<u><u>\$(420,877,376)</u></u>

MITF's changes in net position for the years ended December 31, 2017 and 2016 are reported as follows:

	<u>2017</u>	<u>2016</u>
Program expenses	\$ 90,445,266	\$ 72,945,407
General revenues	48,683,443	49,187,768
Other revenues	<u>146,150</u>	<u>160,574</u>
Increase in net deficit	(41,615,673)	(23,597,065)
Net deficit, beginning of year	<u>(420,877,376)</u>	<u>(397,280,311)</u>
Net deficit, end of year	<u><u>\$(462,493,049)</u></u>	<u><u>\$(420,877,376)</u></u>

Fund Financial Analysis

MITF's special revenue fund balances at December 31, 2017 and 2016 are reported as follows:

	2017	2016
Assets		
Current assets	<u>\$ 20,368,400</u>	<u>\$ 16,834,572</u>
Current liabilities	33,991	41,660
Fund balance	<u>20,334,409</u>	<u>16,792,912</u>
Total liabilities and fund balance	<u>\$ 20,368,400</u>	<u>\$ 16,834,572</u>

MITF's special revenue fund changes in fund balances for the years ended December 31, 2017 and 2016 are reported as follows:

	2017	2016
Revenues	\$ 48,829,593	\$ 53,065,332
Expenditures	<u>42,363,368</u>	<u>54,075,860</u>
Excess of revenues over (under) expenditures	<u>6,466,225</u>	<u>(1,010,528)</u>
Other Financing Uses: Transfers out	<u>(2,924,728)</u>	<u>(3,151,645)</u>
Net change in fund balances	3,541,497	(4,162,173)
Fund balances, beginning of year	<u>16,792,912</u>	<u>20,955,085</u>
Fund balances, end of year	<u>\$ 20,334,409</u>	<u>\$ 16,792,912</u>

Multiple Injury Trust Fund
Management's Discussion and Analysis (Unaudited)
December 31, 2017

MITF's debt service fund deficit at December 31, 2017 and 2016 are reported as follows:

	<u>2017</u>	<u>2016</u>
Total assets	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	195,977	231,858
Total fund deficit	<u>(195,977)</u>	<u>(231,858)</u>
Total liabilities and fund deficit	<u>\$ -</u>	<u>\$ -</u>

MITF's debt service fund changes in fund deficit for the years ended December 31, 2017 and 2016 are reported as follows:

	<u>2017</u>	<u>2016</u>
Total revenues	<u>\$ -</u>	<u>\$ -</u>
Total expenditures	<u>2,888,847</u>	<u>2,891,252</u>
Excess of revenues under expenditures	<u>(2,888,847)</u>	<u>(2,891,252)</u>
Other Financing Sources: Transfers in	<u>2,924,728</u>	<u>2,924,728</u>
Net change in fund deficit	35,881	33,476
Fund deficit, beginning of year	<u>(231,858)</u>	<u>(265,334)</u>
Fund deficit, end of year	<u>\$ (195,977)</u>	<u>\$ (231,858)</u>

Total governmental funds' assets at December 31, 2017 of \$20.4 million increased \$3.5 million from the previous year-end due primarily to the increase in cash. Total governmental funds liabilities at December 31, 2017 of approximately \$230,000 decreased with that of prior year's \$273,000 largely due to a decrease in the interest payable on the notes payable.

The special revenue fund balance for the years 2017 and 2016 was \$20.3 million and \$16.8 million, respectively. The fund balance increase in 2017 from 2016 of \$3.5 million is primarily due to the decrease in apportionments and related receivables related to the \$13.9 million paid in the settlement program initiated in 2016 and no such program in 2017.

The debt service fund deficit for the years 2017 and 2016 was \$195,977 and \$231,858, respectively. The fluctuations in the deficit reflect the difference between payments made to CompSource on the outstanding note payable as discussed in the debt administration section and transfers from the special revenue fund provided to fund the debt payments.

MITF does not adopt an annual appropriated budget for its special revenue fund.

Debt Administration and Capital Assets

At December 31, 2017 and 2016, MITF had \$482.6 million and \$437.4 million, respectively, of notes and orders payable. Of this amount, \$11.2 million and \$13.2 million are notes payable to CompSource at December 31, 2017 and 2016, respectively, with the remainder relating to orders payable at a future date.

	2017	2016
Notes payable	\$ 11,198,700	\$ 13,249,039
Permanent partial orders	377,359	556,555
Permanent total orders	470,986,144	423,574,613
	\$ 482,562,203	\$ 437,380,207

At December 31, 2017, MITF's debt payable increased due to a continued increase in orders offset by a reduction in notes payable.

On May 30, 2000, CompSource Oklahoma (now CompSource Mutual or "CompSource") and MITF entered into a loan agreement to provide payment to five thousand plus disabled Oklahoma workers who have been waiting on permanent partial benefits for nearly six years. This loan of \$38 million succeeded in paying delinquent awards and slowing accrued interest, but it did not eliminate the years of debt incurred by MITF as a result of inadequate funding. CompSource advanced an additional \$11.2 million in loans through December 31, 2001 because MITF's revenue was insufficient to meet its current obligations. No further advances from CompSource have been initiated.

See note 4 for additional information on notes payable and court order payables.

Capital assets consists of internally developed software and data processing equipment and are consistent with prior year. See Note 3 for additional information.

Contacting MITF's Financial Management

This financial report is designed to provide interested parties with a general overview of MITF's finances and to demonstrate MITF's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Multiple Injury Trust Fund, P.O. Box 528801, Oklahoma City, Oklahoma 73152-8801.

Multiple Injury Trust Fund
Statement of Net Deficit
December 31, 2017

Assets

Cash and cash equivalents	\$ 9,699,793
Receivables from Oklahoma Tax Commission	10,650,356
Interest receivable	18,251
Capital assets, net of depreciation	<u>16,480</u>
Total assets	<u><u>\$ 20,384,880</u></u>

Liabilities

Accounts payable	\$ 33,991
Compensated absences	85,758
Accrued interest payable on notes payable	195,977
Notes payable	
Payable within one year	2,197,674
Payable after one year	9,001,026
Permanent partial orders payable	
Payable within one year	337,846
Payable after one year	39,513
Permanent total orders payable	
Payable within one year	43,302,292
Payable after one year	<u>427,683,852</u>
Total liabilities	<u><u>482,877,929</u></u>

Net Deficit

Total net deficit	<u><u>\$(462,493,049)</u></u>
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Multiple Injury Trust Fund
Statement of Activities
Year Ended December 31, 2017

Program expenses	
Court awarded future payments	\$ 87,704,195
Medical and claimant travel	706,151
Interest on notes payable	838,508
Operating, general, and administrative	<u>1,196,412</u>
Total program expenses	<u>90,445,266</u>
General revenues	
Apportionment from Oklahoma Tax Commission	<u>48,683,443</u>
Other revenues	
Interest income	<u>146,150</u>
Total other revenues	<u>146,150</u>
Decrease in net position	(41,615,673)
Net deficit, beginning of year	<u>(420,877,376)</u>
Net deficit, end of year	<u><u>\$(462,493,049)</u></u>

Multiple Injury Trust Fund
Balance Sheet – Governmental Funds
December 31, 2017

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 9,699,793	\$ -	\$ 9,699,793
Receivable from Oklahoma Tax Commission	10,650,356	-	10,650,356
Interest receivable	18,251	-	18,251
Total assets	<u>\$ 20,368,400</u>	<u>\$ -</u>	<u>\$ 20,368,400</u>
Liabilities			
Payable to CompSource Oklahoma			
Accounts payable	\$ 33,991	\$ -	\$ 33,991
Accrued interest payable on notes payable	-	195,977	195,977
Total liabilities	<u>33,991</u>	<u>195,977</u>	<u>229,968</u>
Restricted fund balance			
Claim payments, operating, general and administrative	20,334,409	-	20,334,409
Debt service	-	(195,977)	(195,977)
Total fund balance (deficit)	<u>20,334,409</u>	<u>(195,977)</u>	<u>20,138,432</u>
Total liabilities and fund balance (deficit)	<u>\$ 20,368,400</u>	<u>\$ -</u>	<u>\$ 20,368,400</u>

Multiple Injury Trust Fund
 Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Deficit
 December 31, 2017

Total fund balance - governmental funds		\$ 20,138,432
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Capital assets	\$ 376,113	
Less accumulated depreciation	<u>(359,633)</u>	16,480
Permanent partial orders payable will not be paid with current financial resources and therefore are not reported in the funds		(377,359)
Permanent total orders payable will not be paid with current financial resources and therefore are not reported in the funds.		(470,986,144)
Notes payable will not be paid with current financial resources and therefore are not reported in the funds.		(11,198,700)
Compensated absences are not due and payable in the current period and therefore is not reported in the funds.		<u>(85,758)</u>
Net deficit of governmental activities		<u><u>\$ (462,493,049)</u></u>

Multiple Injury Trust Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) – Governmental Funds Year Ended December 31, 2017

	Special Revenue	Debt Service	Total Governmental Funds
Revenues			
Apportionment from Oklahoma Tax Commission	\$ 48,683,443	\$ -	\$ 48,683,443
Interest income	146,150	-	146,150
Total revenues	<u>48,829,593</u>	<u>-</u>	<u>48,829,593</u>
Expenditures			
Court awards	40,471,860	-	40,471,860
Medical and claimant travel	706,151	-	706,151
Principal on notes payable	-	2,050,339	2,050,339
Interest on notes payable	-	838,508	838,508
Operating, general, and administrative	1,185,357	-	1,185,357
Total expenditures	<u>42,363,368</u>	<u>2,888,847</u>	<u>45,252,215</u>
Excess of expenditures over revenues	6,466,225	(2,888,847)	3,577,378
Other Financing Sources (Uses)			
Transfers in	-	2,924,728	2,924,728
Transfers out	(2,924,728)	-	(2,924,728)
Total other financing sources (uses)	<u>(2,924,728)</u>	<u>2,924,728</u>	<u>-</u>
Net change in fund balances (deficit)	3,541,497	35,881	3,577,378
Fund balances (deficit), beginning of year	<u>16,792,912</u>	<u>(231,858)</u>	<u>16,561,054</u>
Fund balances (deficit), end of year	<u>\$ 20,334,409</u>	<u>\$ (195,977)</u>	<u>\$ 20,138,432</u>

Multiple Injury Trust Fund
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
 of Governmental Funds to Statement of Activities
 Year Ended December 31, 2017

Net change in fund balances (deficit) - total governmental funds	\$ 3,577,378
Repayment of long-term notes payable is considered an expenditure in the governmental funds, but their repayment reduces long-term notes payable in the statement of net assets. This represents principal payments.	2,050,339
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are capitalized and depreciated over their useful lives. The capital outlay expenditures recorded as current year additions and depreciation expense are as follows:	
Current year additions	2,000
Current year depreciation	(7,909)
Compensated absences are expensed as used in the governmental funds. However, they are expensed as earned on the statement of activities. The amount earned exceeded the amount used.	(5,146)
Reductions in permanent total orders payable and the long-term portion of permanent partial orders payable are reported as expenditures in governmental funds.	40,471,860
Increases in permanent total orders payable and the long-term portion of permanent partial orders payable are reported as expenses in the statements of activities.	<u>(87,704,195)</u>
Change in net deficit of governmental activities	<u><u>\$ (41,615,673)</u></u>

Note 1 - Reporting Entity

In 1943, the Oklahoma legislature created the Multiple Injury Trust Fund (MITF), formerly the Special Indemnity Fund, with a dual purpose: to encourage the hiring of individuals with a preexisting disability and to protect those employers from liability for the preexisting disability. It does so by carrying the responsibility for a portion of the benefits if the disabled worker suffers a subsequent injury. MITF is a discretely presented governmental fund component unit of the State of Oklahoma, as agreed to by the Office of State Finance and the State Auditor of Oklahoma.

When the workers' compensation court or the workers' compensation commission makes an award for benefits, those benefits are based upon the individual's percentage of disability. MITF applies to situations where a physically impaired person suffers an on-the-job injury and those two injuries (or disabilities), in combination, result in a percentage of disability greater than that which would apply if there had been no preexisting disability. In other words, the employer is only liable for the benefits that would have been due for the subsequent injury alone. MITF picks up the remainder of the liability for the combined disability.

Benefits from MITF are not received automatically, but can be obtained by a worker by filing a claim against MITF. In order to make a claim, the combined percentage of disability must be greater than 40% to the body as a whole for injuries occurring prior to November 2, 1999. There are no such thresholds for injuries occurring on or after November 1, 1999. For example, an individual with an existing 25% impairment would have to have more than 15% impairment from the subsequent injury in order to make a claim against MITF.

Summary of Significant Accounting Policies

The financial statements of MITF have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of MITF's accounting policies are described below.

Basis of Presentation and Accounting

The government-wide financial statements (i.e., the statements of net deficit and the statements of activities) report information on all of the nonfiduciary activities of the government. Taxes and intergovernmental revenue support governmental activities.

The statements of activities demonstrate the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among programs revenues are reported instead as general revenues. MITF has no program revenues.

Separate financial statements are provided for governmental funds in which major individual governmental funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to long-term claims and judgments, are recorded only when payment is due. Amounts payable in the next current period are recorded as under accrual accounting.

MITF reports the following major governmental funds:

- The special revenue fund is MITF's primary operating fund. It accounts for all financial resources of MITF, except those required to be accounted for in another fund.
- The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The majority of monies received by MITF are restricted in accordance with predesigned purposes as to how they can be transferred or used. Such restrictions are disclosed in the accounting policy describing cash accounts. MITF retains full control of all monies to achieve the designated purposes.

Revenue Recognition

The Oklahoma Tax Commission (OTC) assesses and collects from each uninsured employer a portion of their total compensation paid for permanent disability and death awards. Also, the workers' compensation commission assesses an amount and the OTC collects such assessments from each mutual or interinsurance association, stock company, CompSource, employers carrying their own risk including group self-insurance associations, and other insurance carriers writing workers' compensation insurance in the State of Oklahoma up to 6% of total direct written premiums for workers' compensation on risks located in this state. The effective rate in place since July 1, 2014 was 6.00%.

A portion of the monies received from premium and loss assessments by the OTC are apportioned to the MITF. Earned apportionments from the OTC are recognized monthly when the amounts due from the OTC are measurable. MITF considers receivables collected by the OTC within 30 days after year-end to be available and recognizes them as revenues of the current year.

During 2016, Title 85A O.S. Section 122(D)(1) and (2), stated in part that an additional 1% of premiums would be collected by the state and paid to funds for the Workers' Compensation Commission and the Workers' Compensation Court of Existing Claims (for fiscal years ending June 30, 2016, 2017, 2018, and 2019). Specifically, \$9 million is designated for collection in each applicable fiscal year by the state. All collections in excess of the \$9 million will be credited to the MITF with the designated sums to be deducted therefrom and paid to the two courts. Approximately \$512,000 of such revenues were recorded in for the year ended December 31, 2017. During June 2018, MITF received notice that they will be receiving approximately \$999,000 in such revenues related to fiscal year 2018.

Income Taxes

As a component unit and an integral part of the State of Oklahoma, the income of the MITF is not subject to federal or state income tax.

Cash Amounts

The various monies received or disbursed are recorded in the following account in accordance with the statutes and intent of how the monies are to be expended:

- **General Operating Account.** This account contains monies received from taxes on all permanent workers' compensation orders for payments of claims from MITF. Monies may only be expended for claim payments, personnel payroll, and operating expenses, as directed by statute.

Cash Equivalents

- Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to cash with an original maturity of three months or less when purchased.

Governmental Fund – Fund Balance Designations

Governmental Fund Financial Statements – MITF adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Types* which defines how fund balances of the governmental funds are presented in the financial statements. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which MITF is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. MITF has no fund balances designated as nonspendable.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. MITF has classified all special revenue fund balance as restricted for claim payments or the operation and administration of MITF. MITF has classified the debt service fund's fund balance deficit as restricted for debt service.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of MITF. These amounts cannot be used for any other purpose unless MITF removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. MITF has no fund balance designated as committed.

Assigned: This classification includes amounts that are constrained by MITF's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by MITF delegating this responsibility to management. MITF has no assigned funds.

Unassigned: As the fund balances are all restricted, MITF has no unassigned fund balances.

Compensated Absences

The liability and expense incurred for employee paid time off are recorded as accrued leave obligation in the statement of net position, and as a component of operating, general, and administrative expenses in the statement of activities.

Note 2 - Cash and Cash Equivalents

All cash and cash equivalents are on deposit with the State Treasurer's office. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits in each such institution. The amount of collateral securities to be pledged for the security of public deposits is established by rules promulgated by the State Treasurer. Restrictions by state statute of cash balances by cash account are as follows:

- **General Operating Account.** The cash balance remaining at December 31, 2017 of approximately \$9,700,000 represents the excess of cash receipts over disbursements and is carried forward to the next fiscal year.

Note 3 - Capital Assets

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes.

The following is a summary of property and equipment, at cost less accumulated depreciation:

	December 31, 2016	Increases	Decreases	December 31, 2017
Internally developed software	\$ 269,217	\$ -	\$ -	\$ 269,217
Data processing equipment	104,896	2,000	-	106,896
Total capital assets, being depreciated	<u>374,113</u>	<u>2,000</u>	<u>-</u>	<u>376,113</u>
Less accumulated depreciation	<u>(351,724)</u>	<u>(7,909)</u>	<u>-</u>	<u>(359,633)</u>
	<u>\$ 22,389</u>	<u>\$ (5,909)</u>	<u>\$ -</u>	<u>\$ 16,480</u>

Note 4 - Long-Term Obligations

Orders Payable

At December 31, 2017, MITF was indebted to claimants for court awarded judgments. Only those judgments currently in arrears bear interest. The rate is established by the workers' compensation court or the workers' compensation commission and ranges from 5.25% to 5.5%.

Principal payments required under the court awarded judgments as recorded in the statement of net position at December 31, 2017 is as follows:

Awarded future payments due within one year	\$ 43,640,138
Awarded future payments due after one year	<u>427,723,365</u>
Total awarded future payments	<u><u>\$ 471,363,503</u></u>

The principal allocated by year cannot be determined as amounts paid are contingent on amounts collected from the OTC. The long-term payments have not been discounted to present value.

Notes Payable

At December 31, 2017, notes payable amounted to approximately \$11,199,000. The notes were entered into to satisfy delinquent permanent partial disability awards and simple interest due on such awards owned by MITF. The notes bear interest at 7% and are payable over 30 years in quarterly installments. The loans are secured by MITF revenues and equity or other interest of the State of Oklahoma, and any amounts appropriated or otherwise available to MITF. In addition, \$6,000,000 advanced in 2001 is also secured by any underlying claims paid by virtue of the notes including, but not limited to, any special priority, right to interest or enforcement mechanism available Advances from CompSource were made as permitted by Section 138(B) of State of Oklahoma Title 85.

Annual debt service requirements to maturity are as follows:

Years Ending December 31,	Principal	Interest	Total
2018	\$ 2,197,674	\$ 727,054	\$ 2,924,728
2019	2,355,597	569,131	2,924,728
2020	2,524,867	399,861	2,924,728
2021	2,706,302	218,426	2,924,728
2022	<u>1,414,260</u>	<u>37,137</u>	<u>1,451,397</u>
	<u><u>\$ 11,198,700</u></u>	<u><u>\$ 1,951,609</u></u>	<u><u>\$ 13,150,309</u></u>

At December 31, 2017, unpaid accrued interest on notes payable totaled approximately \$232,000.

Changes in Long-Term Obligations

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Awarded future payments	\$ 424,131,168	\$ 87,704,195	\$ (40,471,860)	\$ 471,363,503	\$ 43,640,138
Notes payable	13,249,039	-	(2,050,339)	11,198,700	2,197,674
Compensated absences	80,612	85,758	(80,612)	85,758	85,758
	<u>\$ 437,460,819</u>	<u>\$ 87,789,953</u>	<u>\$ (42,602,811)</u>	<u>\$ 482,647,961</u>	<u>\$ 45,923,570</u>

Note 5 - Net Deficit

At December 31, 2017, MITF had a net deficit of approximately \$462,500,000 primarily due to court awards exceeding the apportionment of special tax revenue collected. Currently, MITF pays all awards for permanent partial and permanent total claims as they become due. However, cash and cash equivalents at December 31, 2017 are not sufficient to pay all current and non-current liabilities.

Under state statutes, each mutual or interinsurance association, stock company, CompSource, or other insurance carrier writing workers' compensation insurance in this state, and each employer carrying its own risk, including each group self-insurance association, is assessed an amount up to 6% of the written premiums total for workers' compensation on risks located in this state. If the maximum assessment does not provide in any one year an amount sufficient to make all necessary payments for obligations of MITF, the unpaid portion shall be paid as soon thereafter as funds become available. Effective July 1, 2014, the MITF tax was increased from 5.18% to 6.00%, the maximum assessment which has not been altered as of December 31, 2017.

Note 6 - Interfund Transfers

Interfund transfers for the years ended December 31, 2017 consisted of the following:

	Special Revenue	Transfer From Debt Service	Total
Transfer to:			
Debt service	\$ 2,924,728	\$ -	\$ 2,924,728

Transfers are used to: (1) move note proceeds from the debt service fund to the fund required to expend them and (2) move receipts for debt service from the fund collecting the receipts to the debt service fund as debt service payments become due.

Note 7 - Contingencies

The case of Multiple Injury Trust Fund v. Cellino, 2015 OK 12, 347 P.3 293, previously considered a contingency, was decided by the Oklahoma Supreme Court on March 10th, 2015, in the MITF's favor. Cellino was a companion case to a previous class action, known as Pilkington. The Court dismissed Cellino for failure to prosecute. After dismissal of the Cellino case, claimants' counsel filed Carpenter v. MITF on behalf of another member of the class and on the same issues. While no final decision has been rendered by the courts, management remains confident the case will have a positive outcome. Consequently, management has not provided for any amounts in the financial statements.

Additionally, MITF is a defendant in various litigation matters. Although the outcome of these matters is not presently determinable, in the opinion of MITF's management, the resolution of these matters will not have a material effect on the financial position of MITF.

Note 8 - Subsequent Events

There are no subsequent events through June 13, 2018, which is the date the financial statements were available to be issued, requiring recording or disclosure in the financial statements for the year ended December 31, 2017.



**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***

The Board of Directors
Multiple Injury Trust Fund
Oklahoma City, Oklahoma

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 governmental activities and each major fund of Multiple Injury Trust Fund (MITF) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Multiple Injury Trust Fund's basic financial statements, and have issued our report thereon dated June 13, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MITF'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 MITF's internal control. Accordingly, we do not express an opinion on the effectiveness of MITF'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 entity'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
June 13, 2018