MULTIPLE INJURY TRUST FUND

Basic Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

MULTIPLE INJURY TRUST FUND

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December 31, 2011 and 2010

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2011 and 2010.

Financial Highlights

- At December 31, 2011, MITF's liabilities exceeded its assets by $236.1 million. At December 31, 2010, MITF's liabilities exceeded its assets by $165.2 million. The 2011 year-end net deficit increased by $70.9 million. The 2010 year-end net deficit increased $40.0 million from the previous year-end.

- On April 28, 2008, the Workers' Compensation Court of the State of Oklahoma acknowledged a settlement agreement entered into by the parties of the *Dean & Pilkington* class action lawsuit. At December 31, 2008, MITF had paid approximately $10,600,000 in settlement funds representing all qualified claims, attorney fees and administrative costs. Thereafter, additional claims for attorney fees of $260,000 were made, but later denied by the Oklahoma Court of Civil Appeals on June 3, 2011. On November 2, 2011, the Order of Mandate from the Oklahoma Workers Compensation Court finalized the judgment of June 3, 2011. As a result, MITF recorded a gain in the government-wide statement of activities of $260,000, for the year ended December 31, 2011.

- During fiscal year 2011, MITF had revenue of $21.7 million, which consisted of $21.1 million from its apportionment from the Oklahoma Tax Commission (OTC) and $0.3 million from interest income, and $0.3 million from the gain on settlement of the *Dean & Pilkington* class action lawsuit. During fiscal year 2010, MITF had revenue of $22.8 million, which consisted of $22.4 million from its apportionment from the OTC and $0.3 million from interest income. The $1.4 million decrease of OTC apportionment was mainly due to the overall decrease in the amount of premium assessments. Interest income remained the same at $0.3 million for the years ended December 31, 2011 and 2010.

- At December 31, 2011 long-term liabilities of $206.7 million related to court awarded claims payable which comprised 82% of the total liabilities. At December 31, 2010, long-term liabilities of $142.2 million related to court awarded claims payable, which comprised 78% of the total liabilities.

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 statements of net deficit present information on all of MITF's assets and liabilities, with the difference between the two reported as a net deficit. Over time, increases or decreases in net assets 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 deficit changed during the most recent fiscal year. All changes in net deficit 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 to CompSource Oklahoma (CompSource). CompSource provides workers' compensation insurance for all Oklahoma employers and is a component unit of the State of Oklahoma.

Notes to Financial Statements

The notes provide 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 deficit at December 31, 2011 and 2010 are reported as follows:

Assets		2011	2010
Cash and cash equivalents	$	10,504,809	12,441,846
Receivable from Oklahoma Tax Commission		4,070,127	4,922,199
Interest receivable		24,760	29,576
Fixed assets net of depreciation		12,067	61,746
Total assets		14,611,763	17,455,367
Liabilities			
Payable to CompSource Oklahoma		65,954	109,445
Accrued leave obligation		74,316	70,583
Accrued interest payable on past awards		—	260,000
Accrued interest payable on notes payable		378,248	401,910
Notes payable:			
Payable within one year		1,449,230	1,352,071
Payable after one year		20,164,922	21,614,152
Permanent partial orders payable:			
Payable within one year		2,270,695	1,475,851
Payable after one year		456,888	591,631
Permanent total orders payable:			
Payable within one year		19,563,483	15,101,967
Payable after one year		206,256,565	141,630,569
Total liabilities		250,680,301	182,608,179
Net Deficit			
Total net deficit	$	(236,068,538)	(165,152,812)

MITF's changes in net deficit for the years ended December 31, 2011 and 2010 are reported as follows:

		2011	2010
Program expenses:			
Court awards, net of reductions	$	89,505,556	59,739,088
Medical and claimant travel		635,300	502,327
Interest on notes payable		1,548,996	1,641,227
Operating, general, and administrative		886,849	892,616
Total program expenses		92,576,701	62,775,258
General revenues:			
Apportionment from Oklahoma Tax Commission		21,079,845	22,435,692
Total general revenues		21,079,845	22,435,692
Other revenues:			
Gain on settlement of interest payable on past awards		260,000	—
Interest income		321,130	331,862
Total other revenues		581,130	331,862
Decrease (increase) in net deficit		(70,915,726)	(40,007,704)
Net deficit, beginning of year		(165,152,812)	(125,145,108)
Net deficit, end of year	$	(236,068,538)	(165,152,812)

Fund Financial Analysis

MITF's special revenue fund balances at December 31, 2011 and 2010 are reported as follows:

Assets		2011	2010
Cash and cash equivalents	$	10,504,809	12,441,846
Receivable from Oklahoma Tax Commission		4,070,127	4,922,199
Interest receivable		24,760	29,576
Total assets		14,599,696	17,393,621
Liabilities and Fund Balance			
Payable to CompSource Oklahoma		65,954	109,445
Accrued leave obligation		74,316	70,583
Accrued interest payable on past awards		—	260,000
Permanent partial orders payable		2,270,695	1,499,652
Total liabilities		2,410,965	1,939,680
Total fund balance		12,188,731	15,453,941
Total liabilities and fund balance	$	14,599,696	17,393,621

MITF's special revenue fund changes in fund balance for the years ended December 31, 2011 and 2010 are reported as follows:

Revenues		2011	2010
Apportionment from Oklahoma Tax Commission	$	21,079,845	22,435,692
Interest income		321,130	331,862
Total revenues		21,400,975	22,767,554
Expenditures			
Court awards		20,552,787	16,451,245
Medical and claimant travel		635,300	502,327
Capital outlay		8,731	—
Operating, general, and administrative less depreciation		828,439	791,061
Total expenditures		22,025,257	17,744,633
Excess of revenues over expenditures		(624,282)	5,022,921
Other Financing Sources (Uses)			
Transfers in		—	—
Transfers out		(2,924,729)	(2,924,727)
Reduction in interest on past awards due to denied settlement benefits		260,000	—
Total other financing sources (uses)		(2,664,729)	(2,924,727)
Net change in fund balances		(3,289,011)	2,098,194
Fund Balance			
Fund balances, beginning of the year		15,477,742	13,379,548
Fund balances, end of the year	$	12,188,731	15,477,742

MITF’s debt service fund deficit at December 31, 2011 and 2010 are reported as follows:

Assets		**2011**	**2010**
Total assets	$	—	—
Liabilities and Fund Deficit			
Accrued interest payable		378,248	401,910
Total liabilities		378,248	401,910
Total fund deficit		(378,248)	(401,910)
Total liabilities and fund deficit	$	—	—

MITF’s debt service fund changes in fund deficit for the years ended December 31, 2011 and 2010 are reported as follows:

Revenues		**2011**	**2010**
Total revenues	$	—	—
Expenditures			
Principal on notes payable		1,352,071	1,261,426
Interest on notes payable		1,548,996	1,641,227
Total expenditures		2,901,067	2,902,653
Excess of revenues under expenditures		(2,901,067)	(2,902,653)
Other Financing Sources			
Transfers in		2,924,729	2,924,727
Transfers out		—	—
Total other financing sources		2,924,729	2,924,727
Net change in fund deficit		23,662	22,074
Fund Deficit			
Fund deficit, beginning of the year		(401,910)	(423,984)
Fund deficit, end of the year	$	(378,248)	(401,910)

Total governmental funds assets at December 31, 2011 of $14.6 million decreased $2.8 million from the previous year-end due primarily to cash disbursements relating to court awards and notes payable exceeding the apportionment from the Oklahoma Tax Commission. Total governmental funds assets at December 31, 2010 of $17.4 million increased $2.7 million from the previous year-end due primarily to the apportionment from the Oklahoma Tax Commission exceeding cash disbursements relating to court awards and notes payable. Total governmental funds liabilities at December 31, 2011 of $2.8 million increased $0.5 million due primarily to increases in the current portion of permanent partial awards from the prior year. Total governmental funds liabilities at December 31, 2010 of $2.3 million increased $0.6 million due primarily to increases in the current portion of permanent partial awards from the prior year.

The special revenue fund balance for the years 2011 and 2010 was $12.2 million and $15.5 million, respectively. The fund balance decrease in 2011 from 2010 of 3.3 million is primarily due to a decrease in apportionments from the Oklahoma Tax Commission and an increase in the total of court awarded claims payable. The fund balance increase in 2010 from 2009 of $2.1 million was primarily due to the apportionment from the Oklahoma Tax Commission exceeding cash disbursements relating to court awards and notes payable.

The debt service fund deficit for the years 2011 and 2010 was $378,248 and $401,910, respectively. The fluctuations in the deficit reflect the difference between payments made to CompSource on the outstanding liability as discussed in the debt administration section and transfers from the special revenue fund.

CompSource is required by state statute to provide management service as well as act as a payment agent for all nonclaim activities of MITF. Therefore, MITF does not adopt an annual appropriated budget for its special revenue fund.

Debt Administration

At December 31, 2011 and 2010, MITF had $250.2 million and $181.8 million, respectively, of notes and orders payable. Of this amount, $21.6 and $23.0 million are notes payable to CompSource at December 31, 2011 and 2010, respectively, with the remainder relating to orders payable at a future date.

	2011	2010
Notes payable	$ 21,614,152	$ 22,966,223
Permanent partial orders	2,727,583	2,067,482
Permanent total orders	225,820,048	156,732,536
Total	$ 250,161,783	$ 181,766,241

At December 31, 2011, MITF's debt payable increased $68.4 million primarily due to an increase in orders. At December 31, 2010, MITF's debt payable increased by $42.7 million from the previous year-end primarily due to an increase in orders.

On May 30, 2000, CompSource and MITF entered into a loan agreement to provide payment to five thousand plus disabled Oklahoma workers who had 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. Since that time, the revenue stream of MITF has been sufficient, and no additional loans from CompSource have been required. MITF made a $20.0 million principal payment in 2008.

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.

INDEPENDENT AUDITORS' REPORT

Special Counsel
Multiple Injury Trust Fund:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Multiple Injury Trust Fund (MITF), a component unit of the State of Oklahoma as of and for the years ended December 31, 2011 and 2010, which collectively comprise MITF's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MITF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of MITF are intended to present the financial position and the respective changes in financial position of only that portion of the financial reporting entity of the State of Oklahoma that is attributable to the transactions of MITF.

As discussed in Note 7, MITF had a net deficit of approximately $236,069,000 at December 31, 2011 primarily due to court awards exceeding the apportionment of special tax revenue collected.

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, 2011 and 2010, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012, on our consideration of MITF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, contracts and regulations 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

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testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages i through vi is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

HSPG & Associates, P.C.

June 28, 2012

MULTIPLE INJURY TRUST FUND

Statements of Net Deficit

December 31, 2011 and 2010

Assets		**2011**	**2010**
Cash and cash equivalents	$	10,504,809	12,441,846
Receivable from Oklahoma Tax Commission		4,070,127	4,922,199
Interest receivable		24,760	29,576
Fixed assets net of depreciation		12,067	61,746
Total assets		14,611,763	17,455,367
Liabilities			
Payable to CompSource Oklahoma		65,954	109,445
Accrued leave obligation		74,316	70,583
Accrued interest payable on past awards (See Note 6)		—	260,000
Accrued interest payable on notes payable		378,248	401,910
Notes payable:			
Payable within one year		1,449,230	1,352,071
Payable after one year		20,164,922	21,614,152
Permanent partial orders payable:			
Payable within one year		2,270,695	1,475,851
Payable after one year		456,888	591,631
Permanent total orders payable:			
Payable within one year		19,563,483	15,101,967
Payable after one year		206,256,565	141,630,569
Total liabilities		250,680,301	182,608,179
Net Deficit			
Total net deficit	$	(236,068,538)	(165,152,812)

See accompanying notes to basic financial statements.

MULTIPLE INJURY TRUST FUND

Statements of Activities

Years ended December 31, 2011 and 2010

		2011	2010
Program expenses:			
Court awarded future payments	$	91,176,621	61,455,256
Reductions of past awards (See Note 5(c))		(1,671,065)	(1,716,168)
Total court awards net of reductions		89,505,556	59,739,088
Medical and claimant travel		635,300	502,327
Interest on notes payable		1,548,996	1,641,227
Operating, general, and administrative		886,849	892,616
Total program expenses		92,576,701	62,775,258
General revenues:			
Apportionment from Oklahoma Tax Commission		21,079,845	22,435,692
Total general revenues		21,079,845	22,435,692
Other revenues:			
Gain on settlement of interest payable on past awards (See Note 6)		260,000	—
Interest income		321,130	331,862
Total other revenues		581,130	331,862
Decrease (increase) in net deficit		(70,915,726)	(40,007,704)
Net deficit, beginning of the year		(165,152,812)	(125,145,108)
Net deficit, end of the year	$	(236,068,538)	(165,152,812)

See accompanying notes to basic financial statements.

MULTIPLE INJURY TRUST FUND

Balance Sheets
Governmental Funds

December 31, 2011 and 2010

	2011			2010		
Assets	**Special revenue**	**Debt service**	**Total governmental funds**	**Special revenue**	**Debt service**	**Total governmental funds**
Cash and cash equivalents	$ 10,504,809	—	10,504,809	12,441,846	—	12,441,846
Receivable from Oklahoma Tax Commission	4,070,127	—	4,070,127	4,922,199	—	4,922,199
Interest receivable	24,760	—	24,760	29,576	—	29,576
Total assets	14,599,696	—	14,599,696	17,393,621	—	17,393,621
Liabilities and Fund Balance (Deficit)						
Payable to CompSource Oklahoma	65,954	—	65,954	109,445	—	109,445
Accrued leave obligation	74,316	—	74,316	70,583	—	70,583
Accrued interest payable on past awards (See Note 6)	—	—	—	260,000	—	260,000
Accrued interest payable on notes payable	—	378,248	378,248	—	401,910	401,910
Permanent partial orders payable	2,270,695	—	2,270,695	1,475,851	—	1,475,851
Total liabilities	2,410,965	378,248	2,789,213	1,915,879	401,910	2,317,789
Restricted fund balance:						
Claim payments, operating, general, and administrative	12,188,731	—	12,188,731	15,477,742	—	15,477,742
Debt service	—	(378,248)	(378,248)	—	(401,910)	(401,910)
Total fund balance (deficit)	12,188,731	(378,248)	11,810,483	15,477,742	(401,910)	15,075,832
Total liabilities and fund balance (deficit)	$ 14,599,696	—	14,599,696	17,393,621	—	17,393,621
Reconciliation:						
Total fund balance (deficit) – governmental funds	12,188,731	(378,248)	11,810,483	15,477,742	(401,910)	15,075,832
Amounts reported for governmental activities in the statements of net deficit are different because:						
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:						
Governmental capital assets $ 319,126						
Less accumulated depreciation (307,059)	12,067	—	12,067	61,746	—	61,746
Permanent partial and total orders payable after one year are not due and payable in the current period and therefore are not reported in the funds	(206,713,453)	—	(206,713,453)	(142,222,200)	—	(142,222,200)
Notes payable after one year are not due and payable in the current period and therefore are not reported in the funds	—	(20,164,922)	(20,164,922)	—	(21,614,152)	(21,614,152)
Permanent total orders payable within one year will not be paid with current financial resources and therefore are not reported in the funds	(19,563,483)	—	(19,563,483)	(15,101,967)	—	(15,101,967)
Notes payable within one year will not be paid with current financial resources and therefore are not reported in the funds	—	(1,449,230)	(1,449,230)	—	(1,352,071)	(1,352,071)
Net deficit of governmental activities	$ (214,076,138)	(21,992,400)	(236,068,538)	(141,784,679)	(23,368,133)	(165,152,812)

See accompanying notes to basic financial statements.

MULTIPLE INJURY TRUST FUND

Statements of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds

Years ended December 31, 2011 and 2010

	2011			2010		
Revenues	**Special revenue**	**Debt service**	**Total governmental funds**	**Special revenue**	**Debt service**	**Total governmental funds**
Apportionment from Oklahoma Tax Commission	$ 21,079,845	—	21,079,845	22,435,692	—	22,435,692
Interest income	321,130	—	321,130	331,862	—	331,862
Total revenues	21,400,975	—	21,400,975	22,767,554	—	22,767,554
Expenditures						
Court awards	20,552,787	—	20,552,787	16,451,245	—	16,451,245
Medical and claimant travel	635,300	—	635,300	502,327	—	502,327
Principal on notes payable	—	1,352,071	1,352,071	—	1,261,426	1,261,426
Interest on notes payable	—	1,548,996	1,548,996	—	1,641,227	1,641,227
Capital outlay	8,731	—	8,731	—	—	—
Operating, general, and administrative less depreciation	828,439	—	828,439	791,061	—	791,061
Total expenditures	22,025,257	2,901,067	24,926,324	17,744,633	2,902,653	20,647,286
Excess of revenues over (under) expenditures	(624,282)	(2,901,067)	(3,525,349)	5,022,921	(2,902,653)	2,120,268
Other Financing Sources (Uses)						
Transfers in	—	2,924,729	2,924,729	—	2,924,727	2,924,727
Transfers out	(2,924,729)	—	(2,924,729)	(2,924,727)	—	(2,924,727)
Reduction in interest on past awards due to denied settlement benefits (See Note 6)	260,000	—	260,000	—	—	—
Total other financing sources (uses)	(2,664,729)	2,924,729	—	(2,924,727)	2,924,727	—
Net change in fund balances (deficit)	(3,289,011)	23,662	(3,265,349)	2,098,194	22,074	2,120,268
Fund Balance (Deficit)						
Fund balances (deficit), beginning of the year	15,477,742	(401,910)	15,075,832	13,379,548	(423,984)	12,955,564
Fund balances (deficit), end of the year	$ 12,188,731	(378,248)	11,810,483	15,477,742	(401,910)	15,075,832

See accompanying notes to basic financial statements.

MULTIPLE INJURY TRUST FUND

Reconciliation of Statements of Revenues,
Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds
to Statements of Activities

Years ended December 31, 2011 and 2010

Amounts reported for governmental activities in the statements of activities are different because:

		2011	2010
Net change in fund balances – total governmental funds	$	(3,265,349)	2,120,268
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays were greater than (less than) depreciation expense.		(49,679)	(101,555)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net deficit.		1,352,071	1,261,426
Reductions in permanent total orders payable and the long-term portion of permanent partial orders payable are reported as expenditures in governmental funds.		20,552,787	16,451,245
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.		(89,505,556)	(59,739,088)
Change in net deficit of governmental activities	$	(70,915,726)	(40,007,704)

See accompanying notes to basic financial statements.

(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 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 1, 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.

Although their purposes and sources of funding are distinct, MITF and CompSource Oklahoma (CompSource), formerly the Oklahoma State Insurance Fund, are related. Section 175 of Oklahoma Statute Title 85 gives CompSource responsibility for the "administration and protection" of MITF and provides that CompSource be reimbursed for associated administrative expenses.

(a) 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.

(b) 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 revenues 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 predesignated 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.

(c) Revenue Recognition

Until December 31, 2001, each mutual or interinsurance association, stock company, CompSource, or other insurance carrier writing workers' compensation insurance in the State of Oklahoma was assessed and paid to the Oklahoma Tax Commission (OTC) a sum equal to 2% of the total gross direct premiums written for workers' compensation on risks located in the State of Oklahoma. Also until December 31, 2001, the OTC assessed and collected from employers carrying their own risk, including group self-insurance associations, a temporary assessment at the rate of 4% of the total compensation for permanent total disability awards, permanent partial disability awards, and death benefits paid out during each quarter of the calendar year by the employers and group self-insurance associations.

Effective January 1, 2002, the OTC assesses and collects from each uninsured employer 5% of their total compensation paid for permanent disability and death awards. Also effective January 1, 2002, the Workers' Compensation Court Administrator 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 enacted rate schedule since inception of the law is as follows:

Effective Date	**Rate**
January 1, 2002	6.00%
July 1, 2003	2.95%
July 1, 2004	3.63%
July 1, 2005	3.83%
July 1, 2006	3.46%
July 1, 2007	2.14%
July 1, 2008	2.50%
July 1, 2009	2.60%
July 1, 2010	2.59%
July 1, 2011	1.98%

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.

(d) Related Parties

CompSource is required by statute to provide management services as well as act as a payment agent for all nonclaim activities of MITF. Fees paid to CompSource for services and operating activities amounted to approximately $820,000 and $780,000 for 2011 and 2010, respectively. The outstanding payable to CompSource for administrative charges at December 31, 2011 and 2010 was approximately $66,000 and $109,000, respectively. The outstanding payroll accrual to CompSource at December 31, 2011 and 2010 was approximately $74,000 and $71,000, respectively.

(e) 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.

(f) Cash Accounts

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.

(g) 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.

(h) Governmental Fund – Fund Balance Designations

During the fiscal year ended December 31, 2011, MITF adopted GASB *Statement 54 Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement requires MITF to classify fund balance into five distinctive categories: nonspendable, restricted, committed, assigned and unassigned. The governmental fund financial statements present fund balance at the detail level within the categories defined by GASB Statement 54. Prior year fund balance classifications within each fund have been restated to conform with the requirements of GASB Statement 54.

(i) Compensated Absences

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

(2) Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheets include a reconciliation between total fund balance-governmental funds and net deficit of governmental activities as reported in the government-wide statements of net deficit. Elements of that reconciliation explain that “certain liabilities are not due and payable in the current period or will not be paid with current financial resources and therefore are not reported in the funds.” The details are as follows for the years ended December 31:

		2011	2010
Fixed assets net of depreciation	$	12,067	61,746
Permanent partial orders payable after one year		(456,888)	(591,631)
Permanent total orders payable		(225,820,048)	(156,732,536)
Notes payable		(21,614,152)	(22,966,223)
Net adjustment to decrease fund balance – total governmental funds to arrive at net deficit of governmental activities	$	(247,879,021)	(180,228,644)

(3) 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, 2011 and 2010 of approximately $10,505,000 and $12,442,000, respectively, represents the excess of cash receipts over disbursements and is carried forward to the next fiscal year.

(4) Fixed 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, at December 31:

		2011	2010
Internally developed software	$	269,217	269,217
Data processing equipment		49,909	41,176
Less accumulated depreciation		(307,059)	(248,647)
	$	12,067	61,746

(5) Long-Term Obligations

(a) Orders Payable

At December 31, 2011 and 2010, MITF was indebted to claimants for court awarded judgments. Only those judgments currently in arrears bear interest. The rate, set by statute, is the treasury bill rate plus 4% to be updated annually.

Principal payments required under the court awarded judgments as recorded in the statements of net deficit at December 31, 2011 and 2010 are as follows:

		2011	2010
Awarded future payments due within one year	$	21,834,178	16,577,818
Awarded future payments due after one year		206,713,453	142,222,200
Total awarded future payments	$	228,547,631	158,800,018

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.

Principal payments on permanent partial orders payable within one year required under the court awarded judgments as recorded in the statements of net deficit of the government-wide financial statements and the balance sheets of the governmental funds statements at December 31, 2011 and 2010 are approximately $2,300,000 and $1,500,000, respectively. Court awarded judgments of approximately $226,277,000 and $157,324,000 at December 31, 2011 and 2010, respectively, are not recorded in the balance sheets of the fund financial statements as these liabilities will not be paid with current financial resources or are not due and payable in the current period.

(b) Notes Payable

At December 31, 2011 and 2010, notes payable amounted to approximately $21,614,000 and $22,966,000, respectively. The notes were entered into to satisfy delinquent permanent partial disability awards and simple interest due on such awards owed by MITF. The notes bear interest at 7% and are payable over 30 years in quarterly installments. The loans are secured by MITF revenues, any 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:

Year ending December 31:	Principal	Interest	Total
2012	$ 1,449,230	1,475,498	2,924,728
2013	1,553,370	1,371,358	2,924,728
2014	1,664,994	1,259,734	2,924,728
2015	1,784,638	1,140,090	2,924,728
2016	1,912,881	1,011,847	2,924,728
2017-2021	11,834,779	2,788,861	14,623,640
2022	1,414,260	37,137	1,451,397
	$ 21,614,152	9,084,525	30,698,677

At December 31, 2011 and 2010, unpaid accrued interest on notes payable totaled approximately $378,000 and $402,000, respectively.

(c) Changes in Long-Term Obligations

Long-term obligation activity for the year ended December 31, 2011 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Awarded future payments	$ 158,800,018	91,176,621	(21,429,008)	228,547,631	21,834,178
Notes payable	22,966,223	—	(1,352,071)	21,614,152	1,449,230
	$ 181,766,241	91,176,621	(22,781,079)	250,161,783	23,283,408

Long-term obligation activity for the year ended December 31, 2010 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Awarded future payments	$ 114,882,287	61,455,256	(17,537,525)	158,800,018	16,577,818
Notes payable	24,227,649	—	(1,261,426)	22,966,223	1,352,071
	$ 139,109,936	61,455,256	(18,798,951)	181,766,241	17,929,889

Reductions of awarded future payments of approximately $21,429,000 and $17,538,000, respectively, for the years ended December 31, 2011 and 2010 include approximately $1,671,000 and $1,716,000, respectively, in reductions from settlements, abatements, other miscellaneous adjustments and adjustments related to section 172E of Oklahoma Statute Title 85 which requires MITF to delay the start of benefit payments to certain claimants.

(6) Accrued Interest Payable on Past Awards

Accrued interest on past awards represents interest payable to members of a class action lawsuit (*Dean Pilkington, et al., v. Special Indemnity Fund*) originally recorded by MITF in 2001. On February 27, 2001, the Oklahoma Supreme Court denied the MITF Petition for Certiorari in the case of *Dean Pilkington, et al., v. Special Indemnity Fund* ("Pilkington"). The claimant was seeking penalty interest against MITF on all awards of the Workers Compensation Court that were unpaid, not fully paid, or paid late to claimants from January 1, 1987 until May 9, 1996. The effect of the denial was the awarding of approximately $25,000,000 in compound interest as of December 31, 2001 plus additional annual, court determined, interest on the award to the class of persons with delinquent permanent partial awards. The amount payable at December 31, 2011 and 2010 totaled $0 and $260,000, respectively.

Settlement of *Dean Pilkington, et al., v. Special Indemnity Fund*:

On April 28, 2008, the Workers' Compensation Court of the State of Oklahoma acknowledged a settlement agreement entered into by the parties of the *Pilkington* case. The terms of the settlement required MITF, in 2008, to pay approximately $16,015,000 in claims to members of the class action, attorney fees and administrative costs. The settlement required qualified claimants to file a claim no later than September 1, 2008 to receive payment. Any unclaimed settlement amounts would revert back to MITF. At December 31, 2008 MITF had paid out approximately $10,600,000 in settlement funds representing all qualified claims, attorney fees and administrative costs to date. Thereafter, additional claims for attorney fees of $260,000 were made, but later denied by the Oklahoma Court of Civil Appeals on June 3, 2011. On November 2, 2011, the Order of Mandate from the Oklahoma Workers Compensation Court finalized the judgment of June 3, 2011. As a result, MITF recorded a gain in the government-wide statement of activities of $260,000, for the year ended December 31, 2011.

(7) Net Deficit

At December 31, 2011 and 2010, MITF had a net deficit of approximately $236,069,000 and $165,153,000, respectively, 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 immediately when they become due. However, cash and cash equivalents at December 31, 2011 and 2010 are not sufficient to pay all current and non-current liabilities.

The Senate Bill was signed by the Governor of Oklahoma on May 26, 2000. The Senate Bill provided additional sources of funding to satisfy the permanent partial disability awards plus simple interest on awards in arrears. Such sources are participation in any dividends paid by CompSource to state agencies, loans from CompSource, additional fees from insurance carriers underwriting workers' compensation insurance, and employers underwriting their own risk including group self-insurance associations.

Until December 31, 2001, each mutual or interinsurance association, stock company, CompSource, or other insurance carrier writing workers' compensation insurance in this state paid to the OTC a sum equal to 2% of the total gross direct premiums written for workers' compensation on risks located in the State of Oklahoma. The OTC also assessed and collected from employers carrying their own risk, including group self-insurance associations, a temporary assessment at the rate of 4% of the total compensation for permanent total disability awards, permanent partial disability awards, and death benefits paid out during each quarter of the calendar year by the employers and group self-insurance associations. The 4% special tax against claimants and employers on all permanent disability awards was eliminated. In 2002, under House Bill 1003, 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, was 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, 2010, the MITF tax was decreased from 2.6% to 2.59%. Effective July 1, 2011, the tax was decreased to 1.98%.

Per the 2000 legislative session, liability for permanent total disability from a combination of injuries was shifted from MITF back to the claimant's last employer for subsequent injuries sustained after May 31, 2000. Legislature changed this law in 2005. Liability for permanent total disability awards was shifted back to the MITF for subsequent injuries occurring after October 31, 2005. Benefits were increased from a five-year minimum to a fifteen-year minimum, and survivor benefits were created.

(8) Interfund Transfers

Interfund transfers for the year ended December 31, 2011 consisted of the following:

	Transfer from		
	Special revenue	**Debt service**	**Total**
Transfer to:			
Debt service	$ 2,924,729	—	2,924,729
Total	$ 2,924,729	—	2,924,729

Interfund transfers for the year ended December 31, 2010 consisted of the following:

	Transfer from		
	Special revenue	**Debt service**	**Total**
Transfer to:			
Debt service	$ 2,924,727	—	2,924,727
Total	$ 2,924,727	—	2,924,727

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.

(9) Contingencies

MITF is currently involved in a legal case, *Cellino et al. v. MITF*, which is a companion case to Pilkington involving the same or similar issues asserted by a distinct group of claimants who were not part of the Pilkington class. The case has been dismissed in the early stages of litigation. An appeal by the claimants has resulted and has been sustained. Management is defending the case based on the likelihood of a favorable outcome. Although it is not possible to predict the outcome of the pending litigation, management believes that the pending actions will not have a material adverse effect upon the revenue, net assets or financial condition of MITF. Consequently, management has not provided for any amounts in the financial statements.

Additionally, MITF is a defendant in various litigation. 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.

(10) Subsequent Events

There were no subsequent events through June 28, 2012, 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, 2011.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Special Counsel
Multiple Injury Trust fund:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Multiple Injury Trust Fund (MITF), a component unit of the State of Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 28, 2012, which includes explanatory paragraphs regarding Management's Discussion and Analysis, a paragraph emphasizing the accumulated fund deficit, and a paragraph stating that the financial statements are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Oklahoma attributable to the transactions of MITF. 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.

In planning and performing our audit, we considered MITF's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MITF's internal control. Accordingly, we do not express an opinion on the effectiveness of MITF's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in MITF's internal control to be significant deficiencies:

Finding #1 – Currently management has not defined policies and procedures for closing claimant accounts. As a result, closed Claimant accounts with balances remaining of approximately $130,000 have not been reviewed by MITF personnel and properly adjusted if necessary. We recommend MITF establish written criteria for which accounts should be considered closed and then establish the criteria for which to further monitor and evaluate such closed accounts with remaining balances.

Management Response – Management is now in the process of detailing policies and procedures for properly closing claimant accounts. Our intention is to have this policy and procedure documented and implemented by July 20, 2012.

Finding #2 – Currently management has not defined policies and procedures to ensure court award modifications of claimants that have passed away are accounted for in the correct period. We recommend management establish written criteria for obtaining the documentation needed to account for the claimant as deceased in the MITF system and then establish criteria for which to monitor and evaluate deceased claimant accounts with remaining balances.

Management Response – In the past several months, management has made significant progress in discovering and making proper adjustments and modifications to deceased claimant accounts. Management will continue to obtain the necessary supporting documentation to make these adjustments and will also develop and document the related procedure for monitoring and evaluating deceased claimant accounts. Our intention is to have this procedure documented and implemented by July 31, 2012.

This communication is intended solely for the information and use of management, the Governor, the State of Oklahoma, and the State Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

HSPG & Associates, P.C.

HSPG & Associates, P.C.
Oklahoma City, Oklahoma
June 28, 2012