



Financial Statements
June 30, 2016 and 2015

South Dakota School District Benefit Fund

South Dakota School District Benefit Fund
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June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Trustees
South Dakota School District Benefit Fund
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying statement of net position of the South Dakota School District Benefit Fund (Fund) as of June 30, 2016 and 2015, and were engaged to audit the related statements of revenues, expenses and changes net positions, and cash flows for years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows.

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 opinion on the statement of net position as of June 30, 2016 and 2015, the related statements of revenues, expenses and changes net positions, and cash flows for the fiscal year ended June 30, 2016 and the related notes to the financial statements.

Basis for Disclaimer of Opinion on the Statement of Revenues, Expenses and Change in Net Position and Cash Flows

Because we were not engaged as auditors until after June 30, 2014, we have not obtained sufficient appropriate audit evidence by other auditing procedures about selected statement of net position accounts. The significant aspects of the statement of net position at June 30, 2014, including classifications and amounts, materially affect the determination of the results of operations and cash flows for the year ended June 31, 2015.

Disclaimer of Opinion on Statement of Revenues, Expenses, and Changes in Net Position and Cash Flows

Because of the significance of the matter described in the Basis for Disclaimer or Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2015. Accordingly, we do not express an opinion on the statement of revenues, expenses and changes in net position and cash flows for the year ended June 30, 2015.

Opinion

In our opinion, the statements of net position of the Fund as of June 30, 2016 and 2015, and the statement of revenue, expenses and changes in net position and the statement of cash flows for the year ended June 30, 2016, present fairly, in all material respects, the financial position of the Fund as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the year ended June 30, 2016 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 Schedule of Claims Development and Management's Discussion and Analysis as listed in the table of contents 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 the financial reporting and 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 of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.



Fargo, North Dakota
February 1, 2017

This section of the South Dakota School District Benefits Fund (SDSDBF or Fund), a sub-fund of Associated School Boards Protective Trust, annual financial report presents our discussion and analysis of the SDSDBF's financial performance during the fiscal years ended on June 30, 2016, June 30, 2015 and June 30, 2014. Management's Discussion and Analysis (MD&A) is to be read in conjunction with the SDSDBF's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Total aggregate expenditures, including the reduction in claims expense because of reinsurance reimbursements, decreased by \$4,178,668, or -11.8% from \$35,524,026 as of June 30, 2015 to \$31,345,358 as of June 30, 2016.

The more significant highlights of 2016 as compared to 2015 are as follows:

Cash and cash equivalents increased from \$0 as of June 30, 2015 to \$329,651 as of June 30, 2016.

Excess of outstanding checks over bank balance decreased by \$1,180,801; from \$1,180,801 as of June 30, 2015 to \$0 as of June 30, 2016.

Total assets increased by \$453,502; from \$1,391,010 as of June 30, 2015 to \$1,844,512 as of June 30, 2016.

Total liabilities decreased by \$1,009,635; from (\$14,967,273) as of June 30, 2015 to (\$13,957,638) as of June 30, 2016.

Total Net Position improved by \$1,463,137; from (\$13,576,263) as of June 30, 2015 to (\$12,113,125) as of June 30, 2016.

Net Member Contributions decreased by \$796,766; from \$33,178,370 as of June 30, 2015 to \$32,381,604 primarily due to a decrease in membership and an increase in reinsurance costs from \$1,709,442 as of June 30, 2015 to \$2,736,553 as of June 30, 2016, which equated to a \$1,027,091 increase.

The more significant highlights of 2015 as compared to 2014 are as follows:

Total aggregate expenditures, including the reduction in claims expense because of reinsurance reimbursements, decreased by \$839,169, or -2.31% from \$36,363,195 as of June 30, 2014 to \$35,524,026 as of June 30, 2015.

Total assets increased by \$926,957; from \$464,053 as of June 30, 2014 to \$1,391,010 as of June 30, 2015.

Cash and cash equivalents decreased from \$47,041 as of June 30, 2014 to \$0 as of June 30, 2015.

Excess of outstanding checks over bank balance increased by \$492,727; from \$688,074 as of June 30, 2014 to \$1,180,801 as of June 30, 2015.

Total liabilities increased by \$3,272,048; from \$11,695,225 as of June 30, 2014 to \$14,967,273 as of June 30, 2015.

Total Net Position decreased by \$2,345,091; from (\$11,231,172) as of June 30, 2014 to (\$13,576,263) as of June 30, 2015.

Net Member Contributions decreased by \$534,993; from \$33,713,363 as of June 30, 2014 to \$33,178,370 as of June 30, 2015 primarily due to a decrease in membership.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Health Fund's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental bodies (GAAP) and Governmental Accounting Standards Board (GASB). SDSDBF is a sub-fund of Associated School Boards Protective Trust, which is a Joint Power Authority authorized by SDCL 1-24 et. seq., SDCL 13-10-3, and 13-10-9, and the general authority of SDCL Title 13. The primary purpose of SDSDBF is to provide health benefits to public entities as defined in SDCL 1-24 et. seq. who qualify for membership in the fund.

The basic financial statements with supplementary schedules, are presented on an accrual basis of accounting. The three basic financial statements are as follows (on the next page):

South Dakota School District Benefit Fund
Management's Discussion and Analysis
June 30, 2016, 2015 and 2014

**South Dakota School District Benefit Fund
Condensed Statements of Net Position**

	SDSDBF			Total Percentage Change	Total Percentage Change
	2016	2015	2014	2016-2015	2015-2014
Cash and Cash Equivalents	\$ 329,651	\$ -	\$ 47,041	NA	-100.00%
Receivables					
Member Contributions	1,196,924	648,829	67,025	84.47%	868.04%
Reinsurance Receivable	232,966	630,906	294,255	-63.07%	114.41%
Refunds Receivable	84,971	111,275	55,732	-23.64%	99.66%
Total Assets	1,844,512	1,391,010	464,053	32.60%	199.75%
Excess of outstanding checks over bank balance	-	1,180,801	688,074	-100.00%	71.61%
Estimated liability for reported and unreported claims	3,326,356	2,500,000	5,576,950	33.05%	-55.17%
Line of Credit Payable	1,800,250	1,800,250	1,700,100	0.00%	5.89%
Accounts Payable	74,454	243,743	188,612	-69.45%	29.23%
Accrued Interest Payable, ASB					
Workers' Compensation Fund	58,104	45,107	32,133	28.81%	40.38%
Due to ASB Workers' Compensation Fund	797,372	797,372	797,372	0.00%	0.00%
Advance from ASB Workers' Compensation Fund	7,800,000	8,400,000	1,950,000	-7.14%	330.77%
Advance Member Contributions	101,102	-	761,984	NA	-100.00%
Total Liabilities	13,957,638	14,967,273	11,695,225	-6.75%	27.98%
Net Position					
Unrestricted	(12,113,126)	(13,576,263)	(11,231,172)	10.78%	-20.88%
Total Net Position	(12,113,126)	(13,576,263)	(11,231,172)		
Beginning Net Position	(13,576,263)	(11,231,172)	(8,581,581)		
Increase (Decrease) in Net Position	\$ 1,463,137	\$ (2,345,091)	\$ (2,649,591)		
Percentage of Increase (Decrease) in Net Position	10.78%	-20.88%	-30.88%		

Estimated liability for reported and unreported claims also commonly called Incurred but Not Reported (IBNR), or more accurately, Incurred but Not Yet Paid (IBNP) claims increased by \$826,356 or 33.05% for the year ending June 30, 2015, compared to June 30, 2016. The increase resulted from an adjustment reflecting actual IBNP claims from June 30, 2015 compared to the estimate for June 30, 2016.

South Dakota School District Benefit Fund
Management's Discussion and Analysis
June 30, 2016, 2015 and 2014

Estimated liability for reported and unreported claims also commonly called Incurred but Not Reported (IBNR), or more accurately, Incurred but Not Yet Paid (IBNP) claims decreased by \$3,076,950 or -55.17% for the year ending June 30, 2015, compared to June 30, 2014.

**South Dakota School District Benefit Fund
Condensed Statements of Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Total Percentage Change 2016-2015</u>	<u>Total Percentage Change 2015-2014</u>
Revenues					
Operating Revenues					
Member Contribution Earned	\$ 35,118,137	\$ 34,887,812	\$ 35,734,453	0.66%	-2.37%
Less: Reinsurance Premium	(2,736,533)	(1,709,442)	(2,021,090)	60.08%	-15.42%
Total Revenues	\$ 32,381,604	\$ 33,178,370	\$ 33,713,363	-2.40%	-1.59%
Expenses					
Operating Expenses					
Claims and Claims Adjustment Expenses	29,802,797	33,760,852	35,226,665	-11.72%	-4.16%
General and administrative expenses					
Administrative and service fee, ASBSD	700,000	1,055,810	981,266	-33.70%	7.60%
Other	617,973	572,252	53,074	7.99%	978.22%
Total Expenses	\$ 31,120,770	\$ 35,388,914	\$ 36,261,005	-12.06%	-2.41%
Operating Gain/(Loss)	\$ 1,260,834	\$ (2,210,544)	\$ (2,547,642)		
Nonoperating revenues and (expenses)					
Interest Income	\$ 315	\$ 565	\$ 241	-44.25%	134.44%
Interest Expense					
ASB Workers' Compensation Fund	(150,378)	(69,681)	(35,596)	115.81%	95.76%
Note Payable	(74,210)	(65,431)	(66,594)	13.42%	-1.75%
Beginning Net Position	\$ (13,576,263)	\$ (11,231,172)	\$ (8,581,581)		
Increase (Decrease) in Net Position	\$ 1,036,561	\$ (2,345,091)	\$ (2,649,591)	38.40%	38.40%
Assessments	\$ 426,576	\$ -	\$ -		
Ending Net Position	\$ (12,113,126)	\$ (13,576,263)	\$ (11,231,172)	-10.78%	20.88%

Member Contributions decreased by \$796,766 or -2.4% from \$33,178,370 as of June 30, 2015 to \$32,381,604 as of June 30, 2016; primarily due to a decrease in membership and an increase in reinsurance cost.

From FY 15 to FY 16 Claims and claims adjustment expenses incurred saw a decrease of \$3,958,055 or -11.7%, while general and administrative expenses decreased \$310,090 or -19%.

Total aggregate expenditures, including the reduction in claims expense because of reinsurance reimbursements, decreased by \$4,178,668, or -11.8% from \$35,524,026 as of June 30, 2015 to \$31,345,358 as of June 30, 2016.

The change in Net Position was \$1,463,137 for 2016 compared to (\$2,345,091) for 2015.

Net Member Contributions decreased by \$534,993; from \$33,713,363 as of June 30, 2014 to \$33,178,370 as of June 30, 2015 primarily due to a decrease in membership.

Claims and claims adjustment expenses incurred saw a decrease of \$1,465,813 or -4.16%, while general and administrative expenses increased \$593,722 or 57.4%.

Total aggregate expenditures, including the reduction in claims expense because of reinsurance reimbursements, decreased by \$839,169, or -2.31% from \$36,363,195 as of June 30, 2014 to \$35,524,026 as of June 30, 2015.

The change in Net Position as of June 30, 2015 was (\$2,345,091) compared to June 30, 2014 of (\$2,649,591).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Fund's Net Position moderately improved in 2016. The Fund contracted with a new third-party administrator (TPA), Wellmark Blue Cross & Blue Shield of South Dakota effective, July 1, 2015, and the change proved to have a profound positive financial impact on the Fund. The Fund did experience an increase in Net Position of \$1,463,137, which was the first increase in Net Position since Fiscal Year 2009.

With a new TPA in place the Fund expects continued positive financial performance and positive Change in Net Position in the coming years, as the fund works to retire interest bearing debt and to move into a positive Net Position.

To expedite the retirement of the fund's overall deficit, an assessment to the membership in the amount of \$11.2 million was enacted by the Protective Trust Board of Directors on October 31, 2016. Members can elect to pay the assessment in one lump sum or a 4-year payment plan.

CONTACTING SOUTH DAKOTA SCHOOL DISTRICT BENEFIT FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our membership, taxpayers and stakeholders with a general overview of the Health Fund's finances and to demonstrate the Health Fund's accountability for the contribution it receives. If you have questions about this report or need additional information, contact the administrator of Associated School Boards Protective Trust, Associated School Boards of South Dakota at 306 E Capitol Avenue, Suite 100, Pierre, SD 57501.

South Dakota School District Benefit Fund

Statements of Net Position

June 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 329,651	\$ -
Receivables		
Member contributions	1,196,924	648,829
Reinsurance recoverable on paid losses	232,966	630,906
Refunds receivable	84,971	111,275
Total assets	\$ 1,844,512	\$ 1,391,010
 Liabilities and Net Position		
Current Liabilities		
Excess of outstanding checks over bank balance	\$ -	\$ 1,180,801
Estimated liability for reported and unreported claims and claims adjustment expenses	3,326,356	2,500,000
Line of credit payable	1,800,250	1,800,250
Accounts payable		
ASBSD	-	80,713
Other	74,454	163,030
Accrued interest payable, ASB Workers' Compensation Fund	58,104	45,107
Due to ASB Workers' Compensation Fund	797,372	797,372
Advance from ASB Workers' Compensation Fund	600,000	600,000
Advance member contributions	101,102	-
Total current liabilities	6,757,638	7,167,273
Long-term Liabilities		
Advance from ASB Workers' Compensation Fund, net of current portion	7,200,000	7,800,000
Total liabilities	13,957,638	14,967,273
Net Position		
Deficit - unrestricted	(12,113,126)	(13,576,263)
Total liabilities and net position	\$ 1,844,512	\$ 1,391,010

South Dakota School District Benefit Fund
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>(unaudited) 2015</u>
Operating revenues		
Member contributions earned	\$ 35,118,137	\$ 34,887,812
Less: Reinsurance premiums	<u>(2,736,533)</u>	<u>(1,709,442)</u>
Net operating revenues	<u>32,381,604</u>	<u>33,178,370</u>
Operating expenses		
Claims and claims adjustment expenses incurred	<u>29,802,797</u>	<u>33,760,852</u>
	<u>2,578,807</u>	<u>(582,482)</u>
General and administrative expenses		
Administrative and services fees, ASBSD	700,000	1,055,810
Other	617,973	572,252
Total general and administrative expenses	<u>1,317,973</u>	<u>1,628,062</u>
Operating Gain/(Loss)	<u>1,260,834</u>	<u>(2,210,544)</u>
Nonoperating revenues and (expenses)		
Interest income	315	565
Interest expense		
ASB Workers' Compensation Fund	(150,378)	(69,681)
Note payable	<u>(74,210)</u>	<u>(65,431)</u>
Net position		
Beginning of year	<u>(13,576,263)</u>	<u>(11,231,172)</u>
Change in net position	1,036,561	(2,345,091)
Assessments	<u>426,576</u>	<u>-</u>
End of year	<u>\$ (12,113,126)</u>	<u>\$ (13,576,263)</u>

South Dakota School District Benefit Fund
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>(unaudited) 2015</u>
Operating Activities		
Contributions received	\$ 34,697,448	\$ 33,488,481
Reinsurance premiums paid	(2,736,533)	(1,709,442)
Underwriting and expenses of operations paid	(1,487,262)	(1,572,931)
Claims and claims adjustment expenses paid	<u>(28,578,501)</u>	<u>(37,174,453)</u>
Net Cash from (used for) Operating Activities	<u>1,895,152</u>	<u>(6,968,345)</u>
Investing Activity		
Investment income received	<u>315</u>	<u>565</u>
Financing Activities		
Increase (decrease) in excess of outstanding checks over bank balance	(1,180,801)	492,727
Net (payments) borrowings on note payable	-	100,150
Net advances from ASB Workers Compensation Fund	(600,000)	6,450,000
Interest paid on:		
Note payable	(74,210)	(65,384)
Advance, ASB Workers' Compensation Fund	(137,381)	(56,754)
Assessments received	426,576	-
Net Cash (used for) from Financing Activities	<u>(1,565,816)</u>	<u>6,920,739</u>
Net Change in Cash	329,651	(47,041)
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>47,041</u>
Cash and Cash Equivalents, End of Year	<u>\$ 329,651</u>	<u>\$ -</u>
Reconciliation of Operating Gain/(Loss) to Net Cash Used in Operating Activities		
Operating Gain/(Loss)	\$ 1,260,834	\$ (2,210,544)
Changes in assets and liabilities:		
Decrease in receivables	(123,851)	(973,998)
Increase/(decrease) in estimated liability for reported and unreported claims and claims adjustment expenses	826,356	(3,076,950)
Increase/(decrease) in accounts payable	(169,289)	55,131
Increase (decrease) in advance member contributions	<u>101,102</u>	<u>(761,984)</u>
	<u>\$ 1,895,152</u>	<u>\$ (6,968,345)</u>

Note 1 - Principal Business Activity and Significant Accounting Policies

Reporting Entity

The South Dakota School District Benefit Fund (Fund) is one of three sub-funds of the Associated School Boards Protective Trust (Trust). The Trust is a separate legal entity pursuant to South Dakota Codified law formed under the joint powers provisions as provided for in the laws. The Trust is governed by a Joint Powers Agreement and Bylaws (Bylaws). Each member also annually signs a Participation Agreement, which also binds the member to adhere to the Trust's Bylaws. The Fund was formed in 1991 to provide health coverage for member organizations belonging to the Associated School Boards of South Dakota (ASBSD). To be eligible for membership, an applicant must be a public agency and be a member of ASBSD. There were 54 and 56 members of the Fund as of June 30, 2016 and 2015, respectively, which were primarily school districts in the state of South Dakota. The objective of the Fund is to formulate, develop, and administer on behalf of the member organizations, a program of health coverage through pooling risks, self-insurance and joint purchases of insurance. The three sub-funds are supervised by a seven member Associated School Boards Protective Trust Board of Trustees (Board of Trustees).

The Fund operates as a single proprietary fund, more specifically as an enterprise fund. The Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Fund's principal ongoing operations. Nonoperating revenues and expenses result primarily from noncapital financing activities.

The Fund is exposed to various risks of loss related to torts and errors and omissions. The Fund has commercial insurance to mitigate its risks.

The Fund's contract with its members provides for assessment provisions from the members. Members agree to continue membership in the Fund for one year and may withdraw from the Fund for any year thereafter upon giving written notice to the Fund in accordance with the applicable agreements. A member is liable for additional assessments as determined by the board of Trustees. Any member whose membership has been terminated by the Fund will only retain an interest in any accrued or current excess contributions as determined by the Board of Trustees. Participating members upon termination from the Fund will be responsible for their termination contribution to the current financial position of the Fund. The financial contribution responsibility will be calculated by dividing the total number of insured singles and families in the current surplus or deficit to calculate an individual school's termination contribution or termination payout. The family count will have a weight of two when determining value.

In the event of termination or dissolution of the Fund, all assets in excess of liabilities, including a sufficient reserve for unreported liabilities shall be returned to the then active members on a pro-rata basis as determined by the Board of Trustees.

Basis of Presentation

The financial statements have been prepared using the economic resources measurement focus on the accrual basis of accounting. The Fund adopted for all periods presented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This guidance codified all FASB and AICPA accounting literature issued on or before November 30, 1989 which did not conflict with or contradict GASB guidance, directly into GASB's authoritative literature.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the estimated liability for reported and unreported claims and claims adjustment expenses and amounts recoverable from reinsurers under excess of loss coverages.

Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Fund includes as cash equivalents all highly liquid investments with an original maturity of three months or less at the date of acquisition and which are not subject to withdrawal restrictions or penalties.

Receivables

Receivables are recorded based on amounts due from members and other third party payers, and amounts estimated to be received or recovered from reinsurers and other third party payers. The Fund evaluates the collectability of such receivables monthly based on the reinsurers, members or other third party payers' financial condition, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Reinsurance

In the normal course of business, the Fund seeks to reduce the loss that may arise from events that cause unfavorable underwriting results, by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Amounts recoverable from reinsurers are estimated in a manner consistent with the development of the estimated liability for reported and unreported claims and claims adjustment.

Income Taxes

The Fund's income is excludable from income tax under section 115 of the Internal Revenue Code. A private letter ruling on the Fund's tax exempt status has not been requested.

Operating Revenues

Members are billed monthly in advance for member contributions. Income from such contributions is recorded as earned during the coverage period. Contributions received in advance for coverage in the following policy year are recorded as advance member contributions. Revenue is reduced by reinsurance premiums ceded to reinsurance companies. Commission income is recorded as earned during the contract period.

Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses

The coverage offered by the Fund is on the occurrence basis. Occurrence basis coverage provides for payment of claims that occur during the period of coverage regardless of when the claim is reported. The Fund has a provision that pertains to terminating members in each of its member participation agreements, whereby the Fund will only provide coverage for all eligible claims received and paid by its claims administrator prior to the date of the termination of coverage. Management has determined that no reduction in the estimated liability for reported and unreported claims and claims adjustment expenses is required as of June 30, 2016 and 2015 for terminated members. The estimated liability for reported and unreported claims and claims adjustment expenses is based upon data developed by the Fund's administrator. Industry experience and statistics were used to develop the estimated liability. The claims history of the Fund was also considered. The liability includes estimates of the costs to settle individual claims which have been reported, plus a provision for claims and costs incurred but not yet reported. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Claims are reduced for subrogation when payment is received, as subrogation amounts are immaterial.

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management of the Fund believes the estimated liability for reported and unreported claims and claims adjustment expenses is sufficient to cover the ultimate net cost of incurred claims, but such reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated. An independent actuary assisted management with the establishment of estimated claims liabilities for the year ended June 30, 2016 and June 30, 2015.

Assessments

Assessments represent amounts received from participating or terminated members in order to fund the member's share of the deficit. Assessments totaling \$426,576 and \$0 were received during the years ended June 30, 2016 and 2015, respectively.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the financial statements. The Fund has no deferred inflows or outflows of resources.

Any surplus monies for a fiscal year in excess of the amount necessary to fulfill all obligations of the Fund for that year may be refunded to the members at the discretion of the Board of Trustees. No dividends were declared by the Board of Trustees during the fiscal years ended June 30, 2016 and 2015. Discretionary dividends are reported as an expense of the Fund in the year declared.

Subsequent Events

The fund has evaluated subsequent events through February 1, 2017, the date which the financial statements were available to be issued. See Note 10.

Note 2 - Management's Plans

Due to the previous philosophy of the Fund to determine its contribution funding amounts due from members on a cash basis, the Fund has consistently operated in a deficit net position. That philosophy increased the possibility of insufficient liquidity caused by volatile claims or an inability to collect sufficient member contributions on a timely basis to fund such claims.

As shown in the accompanying financial statements, the Fund has incurred recurring losses from operations, and as of June 30, 2016 and 2015, the Fund's liabilities exceeded its assets by \$12,113,126 and \$13,576,263 respectively. These factors raise substantial doubt about the Fund's ability to continue as a going concern. Management has evaluated these conditions and believe them to be significant. Management has implemented a plan that has alleviated the substantial doubt about the entities ability to continue as a going concern. The plan includes; obtaining actuarial services to assist in the determination of member contribution amounts, increasing contribution funding in future years and integrate a portion of the contribution increase towards deficit reduction, utilizing an actuary and its reinsurance broker to help determine desired reinsurance retention levels, secured financing with a bank, and lastly as discussed in the subsequent event footnote Management has assessed the members of the Fund \$11,209,902.

Note 3 - Deposits

The Fund's cash is comprised of deposit accounts, which have bank balances totaling \$434,522 and \$204,193 as of June 30, 2016 and 2015, respectively. Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. As of June 30, 2016 and 2015, deposits of \$102,994 and \$0, respectively, were exposed to custodial credit risk, as they were over the FDIC limit.

Note 4 - Service Agreement

ASBSD, on behalf of the Fund, has an agreement effective July 1, 2015 with Wellmark Blue Cross & Blue Shield of South Dakota (BCBS) to provide health claims administration services for the Fund. The agreement provides that BCBS be paid a claim administration fee per employee per month (PEPM). Total fees incurred under the agreement were \$1,186,295 for the years ended June 30, 2016. Prior to July 1, 2015, Avera Health Plans (AHP) was the service provider for health claims administration and incurred total fees of \$586,879 as of June 30, 2015. These fees are claims adjustment expenses in the statements of revenues, expenses, and changes in net position.

Note 5 - Reinsurance

The Fund utilizes reinsurance agreements to limit maximum loss and minimize exposures on larger risk. During the year ended June 30, 2016, the Fund utilized one reinsurance agreement for health, whereby all members are covered under a reinsurance agreement with a \$200,000 retention. Individual claims in excess of \$200,000 for eligible claims expenses incurred from July 1, 2014 through June 30, 2016 and actually paid from July 1, 2015 through June 30, 2016 with a lifetime unlimited amount, were indemnified.

During the year ended June 30, 2016, the Fund utilized one reinsurance agreement for health, whereby all members are covered under a reinsurance agreement with a \$250,000 retention. Individual claims in excess of \$250,000 for eligible claims expenses incurred from July 1, 2013 through June 30, 2015 and actually paid from July 1, 2014 through June 30, 2015 with a lifetime unlimited amount, were indemnified.

The Fund would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. During fiscal years ended June 30, 2016 and 2015, claims expenses was reduced by \$2,161,610 and \$4,019,603 respectively, of recoveries from the reinsurance companies under contract.

During the year ended June 30, 2016 and 2015, the Fund ceded 100% of its voluntary life and accidental death and dismemberment to another insurance company.

Note 6 - Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses

The Fund establishes liabilities for both reported and unreported covered events, which includes estimates of both future payments of claims and related claims adjustment expenses. The following is a summary of the changes in those aggregate liabilities for the fiscal years ended June 30, 2016 and 2015.

	2016	2015
Reported and unreported claims and claims adjustment expense liabilities at beginning of year	\$ 2,500,000	\$ 5,576,950
Incurred claims and claims adjustment expenses		
Provision for insured events of the current year	30,110,984	33,429,051
Provision for insured events of prior years	(308,187)	331,801
Total incurred claims and claims adjustment expenses	29,802,797	33,760,852
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current year	27,169,329	31,388,461
Claims and claims adjustment expenses attributable to insured events of prior years	1,409,172	5,785,992
Total payments	28,578,501	37,174,453
Less reinsurance recoverable at beginning of year	(630,906)	(294,255)
Plus reinsurance recoverable at end of year	232,966	630,906
Reported and unreported claims and claims adjustment expense liabilities at end of year	\$ 3,326,356	\$ 2,500,000

The 2016 decrease and 2015 increase in prior year provisions of incurred claims and claims adjustment expenses resulted from negative/positive changes in loss development experience as more information became known and payments made.

Note 7 - Line of Credit Payable

The Fund entered into a line of credit with a bank to borrow up to \$2,000,000. The note requires monthly interest payments at 4% and is due upon demand. This note was renewed for one year under the same terms as the previous note, with a maturity date of October 31, 2016 and subsequent to year end was renewed with a maturity date of October 31, 2017. The note is secured by all of ASBSD's deposit accounts (Accounts) with the bank. Furthermore, if the outstanding balance of the loan exceeds the available balance of the Accounts, upon notice from the bank, the Fund must pay down the balance of the loan to bring the Fund into compliance with the agreement. ASBSD has also agreed that if the outstanding balance of the loan exceeds the available balance of the Accounts, that upon notice from the bank, ASBSD will immediately deposit funds into the Accounts in the amount necessary to bring ASBSD into compliance with the agreement. ASBSD may not withdraw funds from the Accounts unless ASBSD is in compliance with the agreement and has written consent of the bank to withdraw the funds. As of June 30, 2016 and 2015, the amount outstanding was \$1,800,250 and \$1,800,250, respectively, relating to this obligation.

Note 8 - Related Party Transactions

ASBSD is a private nonprofit membership corporation comprised of local school districts organized for the purpose of reducing the burdens of government and promoting the exchange and dissemination of information and ideas designed for the efficient administration and conduct of public school affairs, for the purpose of research, for the improvement of school administration and for the purpose of promoting the general welfare of public school systems in the state of South Dakota. ASBSD is the sponsoring organization of the Fund.

Administration agreement: The Trust oversees three sub-funds known as the South Dakota School District Benefit Fund, ASB Property and Liability Fund, and ASB Workers' Compensation Fund (WC Fund). The Trust has an agreement with ASBSD in which ASBSD provides to the Trust, administrative oversight in the implementation and management of the Trust's activities including performing investment, promotion and accounting services for the Fund, among other activities. Under the agreement, ASBSD receives an administrative fee of three percent of the contributions earned, including life and long term disability fees, from member school districts on behalf of the Fund. Amounts incurred by the Fund under the agreement and passed through from the Trust to the Fund during the fiscal years ended June 30, 2016 and 2015, were \$700,000 and \$1,055,810, respectively. As of June 30, 2016 and 2015, \$0 and \$80,713, respectively, was due to ASBSD. The agreement was renewed effective July 1, 2015 and shall remain in force for a period of two years. At the end of the two year period, the agreement will automatically renew for periods of one year unless either party to the agreement gives the other party written notice of intent to not renew the agreement.

Receivable and advance member contributions: In April 2012, the Board of Trustees of the WC Fund provided that the WC Fund distribute a \$2,000,000 dividend to its members. In October 2012, the dividend was amended so that if a member maintains both workers' compensation coverage and is also a member of the Fund (Common Member), the portion of the dividend related to the Common Members will be transferred directly from the WC Fund to the Fund and applied immediately to those respective Fund members as a reduction of related contributions due from the respective Fund member in fiscal year 2013.

During fiscal year 2013, \$812,408 was received from the WC Fund. However, during fiscal year 2013, one Common Member elected not to have the dividend applied to reduce its fiscal year 2013 contributions. Therefore, the Fund remitted this dividend of \$15,036 back to the WC Fund so that the WC Fund could pay such amount to the member. Subsequently, on April 22, 2014, the dividend was amended for Common Members, that the dividend will be paid directly from the WC Fund to the Common Members with half of such amounts to be paid in fiscal year 2014 and the remainder paid equally in fiscal years 2015 and 2016. In connection with this amendment, \$797,372 and \$797,372 was payable to the WC Fund as of June 30, 2016 and 2015, respectively, as the dividend will no longer be used by the Fund as a reduction of fiscal year 2013 contributions from Common Members. There is no determined repayment schedule.

Advances: The Bylaws provide that the separate identity and liability of all three sub-funds will be maintained at all times, and under no circumstances are the Board of Trustees authorized to commingle those separate sub-funds. To insure liquidity of each sub-fund, the Bylaws provide that the Board of Trustees may borrow or loan necessary funds from any source willing to lend, including sub-funds, upon such terms as the Board of Trustees may determine, as set forth in written notes, and the Chair and Secretary/Treasurer of the Board of Trustees are authorized to execute such notes, including lines of credit, on behalf of the Trust. The advance is subject to an oral agreement whereby interest is charged at a variable rate, 1.47% for July 1, 2013 through November 2013 and 1.63% for December 2013 through June 30, 2016, and monthly principal payments of \$50,000, plus interest, will be made until at which time the advance is repaid. The advance as made to help the Fund with operating costs. As of June 30, 2016 and 2015, \$7,800,000 and \$8,400,000, respectively of the advance remains outstanding.

Note 9 - Contingencies

The Fund is a party to various legal actions and is subject to various claims arising in the ordinary course of business. Management believes that the disposition of these matters will not have a material adverse effect on the Fund's financial position or results of operations.

Note 10 - Subsequent Events

On Monday, October 3, 2016 a membership meeting was held to announce the intentions of the Board of Trustees to levy an assessment on the membership. The assessment was formally made by the Protective Trust Board of Trustees on October 31, 2016 in the amount of \$11,209,902. Members can elect to pay their assessment amount in one-lump sum payment or in four annual installments at an interest rate of 1.5%.



Required Supplementary Information
June 30, 2016 and 2015

South Dakota School District Benefit Fund

South Dakota School District Benefit Fund
Ten-Year Schedule of Claims Development
For the Ten Years Ended June 30, 2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net earned member contributions and investment income:										
Earned	*	\$ 31,481,179	\$ 30,781,953	\$ 31,540,961	\$ 32,107,261	\$ 32,104,730	\$ 32,084,684	\$ 35,734,453	\$ 34,887,812	\$ 35,118,452
Ceded	*	(2,369,239)	(1,397,446)	(1,552,782)	(1,811,449)	(1,914,688)	(1,642,804)	(2,021,090)	(1,709,442)	(2,736,533)
Net earned	*	<u>29,111,940</u>	<u>29,384,507</u>	<u>29,988,179</u>	<u>30,295,812</u>	<u>30,190,042</u>	<u>30,441,880</u>	<u>33,713,363</u>	<u>33,178,370</u>	<u>32,381,919</u>
Unallocated expenses	*	547,128	582,796	1,012,357	1,001,995	993,517	1,033,116	1,034,340	1,628,062	1,317,973
Estimated claims and expenses, end of policy year										
Incurred	*	28,507,302	28,871,187	30,243,666	32,734,377	32,673,510	31,798,010	37,908,372	37,780,455	31,964,407
Ceded	*	497,267	656,762	832,273	2,524,744	2,063,425	1,387,643	2,681,707	4,019,603	2,161,610
Net incurred	*	<u>28,010,035</u>	<u>28,214,425</u>	<u>29,411,393</u>	<u>30,209,633</u>	<u>30,610,085</u>	<u>30,410,367</u>	<u>35,226,665</u>	<u>33,760,852</u>	<u>29,802,797</u>
Net paid (cumulative) as of:										
End of policy year	*	23,754,503	24,175,362	25,477,551	26,479,396	27,824,106	27,341,923	29,252,542	31,388,461	27,169,329
One year later	*	28,104,946	28,031,957	30,437,372	29,201,536	30,261,282	31,225,452	35,038,534	32,797,633	
Two years later	*	28,104,946	28,031,957	30,437,372	29,201,536	30,137,625	31,225,452	35,038,534		
Three years later	*	28,104,946	28,031,957	30,437,372	29,201,536	30,137,625	31,225,452			
Four years later	*	28,104,946	28,031,957	30,437,372	29,201,536	30,137,625				
Five years later	*	28,104,946	28,031,957	30,437,372	29,201,536					
Six years later	*	28,104,946	28,031,957	30,437,372						
Seven years later	*	28,104,946	28,031,957							
Eight years later	*	28,104,946								
Nine years later	*									
Reestimated ceded claims and expenses	*	3,604,853	1,160,957	832,273	2,524,744	2,063,425	1,387,643	2,681,707	4,019,603	2,161,610
Reestimated net incurred claims and expenses:										
End of policy year	*	28,010,035	28,214,425	29,411,393	30,209,633	30,610,085	30,410,367	32,809,227	33,760,852	30,110,984
One year later	*	28,104,946	28,031,957	30,437,373	29,201,536	30,261,282	32,827,805	33,141,028	33,452,665	
Two years later	*	28,104,946	28,031,957	30,437,373	29,201,536	30,137,625	32,827,805	33,141,028		
Three years later	*	28,104,946	28,031,957	30,437,373	29,201,536	30,137,625	32,827,805			
Four years later	*	28,104,946	28,031,957	30,437,373	29,201,536	30,137,625				
Five years later	*	28,104,946	28,031,957	30,437,373	29,201,536					
Six years later	*	28,104,946	28,031,957	30,437,373						
Seven years later	*	28,104,946	28,031,957							
Eight years later	*	28,104,946								
Nine years later	*									
Increase (decrease) in estimated net incurred claims and expenses from end of policy year	*	94,911	(182,468)	1,025,980	(1,008,097)	(472,460)	2,417,438	331,801	(308,187)	-

* Financial information is not available for the respective period