



Financial Statements  
June 30, 2017 and 2016

# South Dakota School District Benefits Fund

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## Independent Auditor's Report

The Board of Trustees  
South Dakota School District Benefit Fund  
Pierre, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota School District Benefit Fund (Fund) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the Fund reporting entity are intended to present the net position, changes in net position, and cash flows of only the activities of the Fund. They do not purport to, and do not, present fairly the financial position of the Associated School Boards Protective Trust as of June 30, 2017 and 2016, and the changes in its net position or its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of Claims Development Information on page 20 and Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2018 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Fargo, North Dakota  
January 18, 2018

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, 2017, June 30, 2016 and June 30, 2015. 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**

The more significant highlights of 2017 as compared to 2016 are as follows:

Total aggregate expenditures, including the reduction in claims expense because of reinsurance reimbursements, decreased by \$125,131, or -0.40 percent from \$31,120,770 as of June 30, 2016 to \$30,995,639 as of June 30, 2017.

Cash and cash equivalents increased by \$659,596 from \$329,651 as of June 30, 2016 to \$989,247 as of June 30, 2017.

Total assets increased by \$12,486,000, from \$1,844,512 as of June 30, 2016 to \$14,330,512 as of June 30, 2017.

Assessment and Assessment Interest Receivable increased by \$10,683,397; from \$0 as of June 30, 2016 to \$10,683,397 as of June 30, 2017.

Total liabilities decreased by \$4,068,609; from \$13,957,638 as of June 30, 2016 to \$9,889,029 as of June 30, 2017.

Total Net Position (Deficit) increased by \$16,554,609, from (\$12,113,126) as of June 30, 2016 to \$4,441,483 as of June 30, 2017.

Net Member Contributions increased by \$3,588,197; from \$32,381,604 as of June 30, 2016 to \$35,969,801 as of June 30, 2017.

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

Total aggregate expenditures, including the reduction in claims expense because of reinsurance reimbursements, decreased by \$4,268,144, or -12.06% from \$35,388,914 as of June 30, 2015 to \$31,120,770 as of June 30, 2016.

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 (Deficit) 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.

## **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, 2017, 2016 and 2015

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

	SDSDBF			Total Percentage Change	Total Percentage Change
	2017	2016	2015	2017-2016	2016-2015
<b>Assets</b>					
Cash and Cash Equivalents	\$ 989,247	\$ 329,651	\$ -	200.09%	
Receivables					
Member Contributions	1,806,757	1,196,924	648,829	50.95%	84.47%
Assessment Receivable	10,589,717	-	-		
Assessment Interest Receivable	93,680	-	-		
Reinsurance Receivable	-	232,966	630,906		-63.07%
Refunds Receivable	250,000	84,971	111,275	194.22%	-23.64%
Pharmacy Rebates Receivable	601,111	-	-		
<b>Total Assets</b>	<b>14,330,512</b>	<b>1,844,512</b>	<b>1,391,010</b>	<b>676.93%</b>	<b>32.60%</b>
<b>Current Liabilities</b>					
Excess of outstanding checks over bank balance	-	-	1,180,801		
Estimated liability for reported and unreported claims	2,600,000	3,326,356	2,500,000	-21.84%	33.05%
Amount held for others	56	-	-		
Line of Credit Payable	-	1,800,250	1,800,250		0.00%
Accounts Payable	10,950	74,454	243,743	-85.29%	-69.45%
Accrued Interest Payable, ASB Workers' Compensation Fund	-	58,104	45,107		28.81%
Due to ASB Workers' Compensation Fund	-	797,372	797,372		0.00%
Advance from ASB Workers' Compensation Fund	600,000	600,000	600,000	0.00%	0.00%
Advance Member Contributions	78,023	101,102	-	-22.83%	
<b>Total Current Liabilities</b>	<b>3,289,029</b>	<b>6,757,638</b>	<b>7,167,273</b>	<b>-51.33%</b>	<b>-5.72%</b>
<b>Long-Term Liabilities</b>					
Advance from ASB Workers' Compensation Fund	6,600,000	7,200,000	7,800,000	-8.33%	-7.69%
<b>Total Liabilities</b>	<b>9,889,029</b>	<b>13,957,638</b>	<b>14,967,273</b>	<b>-29.15%</b>	<b>-6.75%</b>
<b>Net Assets</b>					
Unrestricted	4,441,483	(12,113,126)	(13,576,263)	136.67%	10.78%
<b>Total Net Assets</b>	<b>4,441,483</b>	<b>(12,113,126)</b>	<b>(13,576,263)</b>		
<b>Beginning Net Position (Deficit)</b>	<b>(12,113,126)</b>	<b>(13,576,263)</b>	<b>(11,231,172)</b>		
<b>Increase (Decrease) in Net Position (Deficit)</b>	<b>\$ 16,554,609</b>	<b>\$ 1,463,137</b>	<b>\$ (2,345,091)</b>		
<b>Percentage of Increase (Decrease) in Net Position (Deficit)</b>	<b>136.67%</b>	<b>10.78%</b>	<b>-20.88%</b>		

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South Dakota School District Benefit Fund  
Management's Discussion and Analysis  
June 30, 2017, 2016 and 2015

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 \$726,356 for the year ending June 30, 2016, compared to June 30, 2017. The decrease resulted from an adjustment reflecting actual IBNP claims and the monitoring of development factors from June 30, 2016 compared to the estimate for June 30, 2017.

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  
Condensed Statements of Changes in Net Position**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Total Percentage Change 2017-2016</u>	<u>Total Percentage Change 2016-2015</u>
<b>Revenues</b>					
Operating Revenues					
Member Contribution Earned	\$ 37,894,362	\$ 35,118,137	\$ 34,887,812	7.91%	0.66%
Less: Reinsurance Premium	(1,924,561)	(2,736,533)	(1,709,442)	-29.67%	60.08%
<b>Total Revenues</b>	<b>\$ 35,969,801</b>	<b>\$ 32,381,604</b>	<b>\$ 33,178,370</b>	<b>11.08%</b>	<b>-2.40%</b>
<b>Expenses</b>					
Operating Expenses					
Claims and Claims Adjustment Expenses	\$ 29,737,964	\$ 29,802,797	\$ 33,760,852	-0.22%	-11.72%
General and administrative expenses					
Administrative and service fee, ASBSD	700,000	700,000	1,055,810	0.00%	-33.70%
Other	517,675	617,973	572,252	-16.23%	7.99%
<b>Total Expenses</b>	<b>\$ 30,955,639</b>	<b>\$ 31,120,770</b>	<b>\$ 35,388,914</b>	<b>-0.53%</b>	<b>-12.06%</b>
Operating Gain/(Loss)	\$ 5,014,162	\$ 1,260,834	\$ (2,210,544)	297.69%	-157.04%
Nonoperating revenues and (expenses)					
Interest Income	\$ 380	\$ 315	\$ 565	20.63%	-44.25%
Interest Expense					
ASB Workers' Compensation Fund	(132,727)	(150,378)	(69,681)	-11.74%	115.81%
Note Payable	(21,048)	(74,210)	(65,431)	-71.64%	13.42%
<b>Increase (Decrease) in Net Position</b>	<b>\$ 4,860,767</b>	<b>\$ 1,036,561</b>	<b>\$ (2,345,091)</b>	<b>368.93%</b>	<b>-144.20%</b>
<b>Beginning Net Position</b>	<b>\$ (12,113,126)</b>	<b>\$ (13,576,263)</b>	<b>\$ (11,231,172)</b>		
Assessment Received	1,010,445	426,576	-		
Assessment Receivable	10,589,717	-	-		
Assessment Interest Receivable	93,680	-	-		
<b>Ending Net Position</b>	<b>\$ 4,441,483</b>	<b>\$ (12,113,126)</b>	<b>\$ (13,576,263)</b>		

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Net Member Contributions increased by \$3,588,197; from \$32,381,604 as of June 30, 2016 to \$35,969,801 as of June 30, 2017

Claims and claims adjustment expenses incurred experienced a decrease of \$64,833 as of June 30, 2017 compared to June 30, 2016, while general and administrative expenses decreased \$100,298 as of June 30, 2017 compared to June 30, 2016.

Total aggregate expenditures, including the reduction in claims expense because of reinsurance reimbursements, decreased by \$270,152, or -0.53 percent from \$31,120,770 as of June 30, 2016 to \$30,995,639 as of June 30, 2017.

The change in Net Position (Deficit) as of June 30, 2016 increased \$1,463,137 compared to an increase \$16,554,608 as of June 30, 2017.

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 (Deficit) was \$1,463,137 for 2016 compared to (\$2,345,091) for 2015.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The fund contracts with Wellmark Blue Cross and Blue Shield of South Dakota (Wellmark) for third party administrative services (TPA). 2017 was the second year Wellmark was the Fund's TPA. The Fund has experienced large financial gain since partnering with Wellmark because of the strength of provider reimbursement contracts, plan designs, and appropriate funding levels.

The Protective Trust Board of Directors on October 31, 2016 levied an \$11.2 million assessment to members of the health fund. Members can elect to pay the assessment in one lump sum or a four-year payment plan with an interest rate of 1.5 percent. As of June 30, 2017, the fund had received \$1,010,445 in assessment payments with additional short-term and lump sum payments receivable due by October 1, 2017.

All loans to the ASB Workers' Compensation Fund and the line of credit have been paid in full as of January 18, 2018.

## **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.

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	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 989,247	\$ 329,651
Receivables		
Member contributions	1,806,757	1,196,924
Assessment receivable	6,031,599	-
Assessment interest receivable	93,680	-
Reinsurance recoverable on paid losses	-	232,966
Refunds receivable	250,000	84,971
Pharmacy rebates receivable	601,111	-
	<u>9,772,394</u>	<u>1,844,512</u>
Total current assets		
	<u>9,772,394</u>	<u>1,844,512</u>
Long-Term Assets		
Assessment receivable	<u>4,558,118</u>	<u>-</u>
	<u>4,558,118</u>	<u>-</u>
Total assets	<u>\$ 14,330,512</u>	<u>\$ 1,844,512</u>

See Notes to Financial Statements

South Dakota School District Benefit Fund  
 Statements of Net Position  
 June 30, 2017 and 2016

	2017	2016
Liabilities and Net Position		
Current Liabilities		
Estimated liability for reported and unreported claims and claims adjustment expenses	2,600,000	3,326,356
Amount held for others	56	-
Line of credit payable	-	1,800,250
Accounts payable	10,950	74,454
Accrued interest payable, ASB Workers' Compensation Fund	-	58,104
Due to ASB Workers' Compensation Fund	-	797,372
Advance from ASB Workers' Compensation Fund	600,000	600,000
Advance member contributions	78,023	101,102
Total current liabilities	3,289,029	6,757,638
Long-term Liabilities		
Advance from ASB Workers' Compensation Fund, net of current portion	6,600,000	7,200,000
Total liabilities	9,889,029	13,957,638
Net Position		
Surplus (Deficit) - unrestricted	4,441,483	(12,113,126)
Total liabilities and net position	\$ 14,330,512	\$ 1,844,512

South Dakota School District Benefit Fund  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues		
Member contributions earned	\$ 37,894,362	\$ 35,118,137
Less: Reinsurance premiums	(1,924,561)	(2,736,533)
Net operating revenues	35,969,801	32,381,604
Operating expenses		
Claims and claims adjustment expenses incurred, net	29,737,964	29,802,797
	6,231,837	2,578,807
General and administrative expenses		
Administrative and services fees, ASBSD	700,000	700,000
Other	517,675	617,973
Total general and administrative expenses	1,217,675	1,317,973
Operating gain	5,014,162	1,260,834
Nonoperating revenues and (expenses)		
Interest income	380	315
Interest expense		
ASB Workers' Compensation Fund	(132,727)	(150,378)
Note payable	(21,048)	(74,210)
Total nonoperating revenues and (expenses)	(153,395)	(224,273)
Net change in net position	4,860,767	1,036,561
Net position		
Beginning of year	(12,113,126)	(13,576,263)
Net change in net position	4,860,767	1,036,561
Assessment received	1,010,445	426,576
Assessment receivable	10,589,717	-
Assessment interest receivable	93,680	-
End of year	\$ 4,441,483	\$ (12,113,126)

South Dakota School District Benefit Fund  
Statements of Cash Flows  
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Contributions received	\$ 36,495,310	\$ 34,697,448
Reinsurance premiums paid	(1,924,561)	(2,736,533)
Underwriting and expenses of operations paid	(1,281,179)	(1,487,262)
Claims and claims adjustment expenses paid	(30,231,354)	(28,578,501)
Net Cash from Operating Activities	3,058,216	1,895,152
Investing Activity		
Investment income received	380	315
Non-Capital Financing Activities		
Decrease in excess of outstanding checks over bank balance	-	(1,180,801)
Net payments on note payable	(1,800,250)	-
Net payments to ASB Workers Compensation Fund	(1,397,372)	(600,000)
Interest paid on:		
Advance, ASB Workers' Compensation Fund	(190,831)	(137,381)
Note payable	(21,048)	(74,210)
Increase in amounts held for others	56	-
Assessments received	1,010,445	426,576
Net Cash used for Non-Capital Financing Activities	(2,399,000)	(1,565,816)
Net Change in Cash	659,596	329,651
Cash and Cash Equivalents, Beginning of Year	329,651	-
Cash and Cash Equivalents, End of Year	\$ 989,247	\$ 329,651
Reconciliation of Operating Gain/(Loss) to Net Cash Used in Operating Activities		
Operating Gain	\$ 5,014,162	\$ 1,260,834
Changes in assets and liabilities:		
Increase in receivables	(1,143,007)	(123,851)
Increase (decrease) in estimated liability for reported and unreported claims and claims adjustment expenses	(726,356)	826,356
Decrease in accounts payable	(63,504)	(169,289)
Increase (decrease) in advance member contributions	(23,079)	101,102
	\$ 3,058,216	\$ 1,895,152

**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 53 and 54 members of the Fund as of June 30, 2017 and 2016, 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 accrual basis of accounting. The Fund prepares its financial statements primarily following the guidance of Governmental Accounting Standards Board (GASB) Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues (as amended by subsequent GASB statements) along with other applicable standards issued by the GASB. GASB Statement No. 10 establishes accounting and financial reporting standards for risk financing and insurance-related activities of public entity risk pools.

### **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.

### **Premium Deficiency**

A premium deficiency exists when the sum of expected claims costs (including an estimated liability for unreported claims) and all expected claims adjustment expenses, expected dividends, and policy acquisition costs exceed related unearned contributions. The Fund anticipates investment income in determining if a premium deficiency exists. As of June 30, 2017 and 2016, there was no premium deficiency reserve recorded.

### **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, 2017 and 2016 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 years ended June 30, 2017 and June 30, 2016.

### **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, 2017 and 2016. Discretionary dividends are reported as an expense of the Fund in the year declared.

**Assessments**

Assessments represent amounts received from participating or terminated members in order to fund the member's share of the deficit. Assessments including interest totaling \$11,693,842 and \$426,576 were recognized during the years ended June 30, 2017 and 2016, respectively. Assessments receivable as of June 30, 2017 and 2016 were \$10,589,717 and \$0, respectively. Assessment interest receivable as of June 30, 2017 and 2016 was \$93,680 and \$0, respectively.

**Note 2 - Deposits**

The Fund's cash is comprised of deposit accounts, which have bank balances totaling \$2,173,193 as of June 30, 2017 and \$434,522 as of June 30, 2016. Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. The Fund does not have a deposit policy for custodial credit risk. As of June 30, 2017 and 2016, deposits of \$1,923,193 and \$102,994, respectively, were exposed to custodial credit risk, as they were over the FDIC limit. A deposit pledge letter has been obtained ensuring the Fund's deposit accounts are secure in the event of a bank failure.

**Note 3 - Service Agreement**

ASBSD, on behalf of the Fund, has an agreement effective July 1, 2016 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 \$1,166,418 and \$1,186,295 for the years ended June 30, 2017 and 2016, respectively. These fees are claims adjustment expenses in the statement of revenue, expenses and changes in net position.

**Note 4 - Reinsurance**

The Fund utilizes reinsurance agreements to limit maximum loss and minimize exposures on larger risk. During the year ended June 30, 2017 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, 2015 through June 30, 2017 and actually paid from July 1, 2016 through June 30, 2017 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 \$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.

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, 2017 and 2016, claims expenses was reduced by \$1,113,957 and \$2,161,610, respectively, of recoveries form the reinsurance companies under contract.

During the year ended June 30, 2016, the Fund ceded 100% of its voluntary life and accidental death and dismemberment to another insurance company. During the year ended June 30, 2017 the Fund discontinued receiving and ceding 100% of its voluntary and accidental death and dismemberment to another insurance company; the year ended June 30, 2017 has zero transactions for voluntary and accidental death and dismemberment to another insurance company.

**Note 5 - Health Care Receivables**

The Company estimates pharmaceutical rebate receivables, taking into account projected prescription data provided to it by a pharmacy benefit manager and the actual number of prescriptions filled for the respective period. Estimated amounts are adjusted to take into account the Company's actual collection experience relative to prior estimates provided by the pharmacy benefits manager. At June 30, 2017 and 2016, the Company had recorded \$601,111 and \$0 respectively, of estimated pharmacy rebate receivables in the statements of net position.

### 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, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Reported and unreported claims and claims adjustment expense liabilities at beginning of year	\$ 3,326,356	\$ 2,500,000
Incurred claims and claims adjustment expenses		
Provision for insured events of the current year	29,784,838	30,110,984
Provision for insured events of prior years	(46,874)	(308,187)
Total incurred claims and claims adjustment expenses	<u>29,737,964</u>	<u>29,802,797</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current year	28,266,351	27,169,329
Claims and claims adjustment expenses attributable to insured events of prior years	1,965,003	1,409,172
Total payments	<u>30,231,354</u>	<u>28,578,501</u>
Less reinsurance recoverable at beginning of year	(232,966)	(630,906)
Plus reinsurance recoverable at end of year	-	232,966
Reported and unreported claims and claims adjustment expense liabilities at end of year	<u>\$ 2,600,000</u>	<u>\$ 3,326,356</u>

The 2017 and 2016 decrease in prior year provisions of incurred claims and claims adjustment expenses resulted from 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, 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, 2017 and 2016, the amount outstanding was \$0 and \$1,800,250, respectively, relating to this obligation.

Furthermore, as of June 30 2017, the line of credit has been dissolved and the collateral returned to ASBSD.

### **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, 2017 and 2016, were \$700,000. As of June 30, 2017 and 2016 \$0, 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 Benefit 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, \$0 and \$797,372 was payable to the WC Fund as of June 30, 2017 and 2016, respectively, as the dividend will no longer be used by the Fund as a reduction of fiscal year 2013 contributions from Common Members.

The WC Fund dividend plus accrued interest has been repaid as of June 30, 2017.

**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, 2017, 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, 2017 and 2016, \$7,200,000 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**

As of September 11, 2017 the \$7,200,000 due to the Workers' Compensation Fund has been repaid.

The administrative agreement between ASBSD and the Fund was renewed for a period of three years beginning July 1, 2017.

As of September 30, 2017, \$6,161,776 of assessments receivable have been received by the Fund.

The Fund has evaluated subsequent events through January 18, 2018, the date which the financial statements were available to be issued.



Required Supplementary Information  
June 30, 2017 and 2016

# 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, 2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	\$35,118,137	\$37,894,362
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)	(1,924,561)
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>32,381,604</u>	<u>35,969,801</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	1,217,675
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	30,851,921
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	1,113,957
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>	<u>29,737,964</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	28,266,351
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	29,134,332	
Two years later	28,104,946	28,031,957	30,437,372	29,201,536	30,137,625	31,225,452	35,038,534	32,797,633		
Three years later	28,104,946	28,031,957	30,437,372	29,201,536	30,137,625	31,225,452	35,038,534			
Four years later	28,104,946	28,031,957	30,437,372	29,201,536	30,137,625	31,225,452				
Five years later	28,104,946	28,031,957	30,437,372	29,201,536	30,137,625					
Six years later	28,104,946	28,031,957	30,437,372	29,201,536						
Seven years later	28,104,946	28,031,957	30,437,372							
Eight years later	28,104,946	28,031,957								
Nine years later	28,104,946									
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	1,113,957
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	29,784,838
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	30,064,110	
Two years later	28,104,946	28,031,957	30,437,373	29,201,536	30,137,625	32,827,805	33,141,028	33,452,665		
Three years later	28,104,946	28,031,957	30,437,373	29,201,536	30,137,625	32,827,805	33,141,028			
Four years later	28,104,946	28,031,957	30,437,373	29,201,536	30,137,625	32,827,805				
Five years later	28,104,946	28,031,957	30,437,373	29,201,536	30,137,625					
Six years later	28,104,946	28,031,957	30,437,373	29,201,536						
Seven years later	28,104,946	28,031,957	30,437,373							
Eight years later	28,104,946	28,031,957								
Nine years later	28,104,946									
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)	(46,874)	-

**Independent Auditor's 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***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota School District Benefit Fund (Fund) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated January 18, 2018.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency as item 2017-A.

***Compliance and Other Matters***

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

**South Dakota School District Benefit Fund’s Response to Findings**

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

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
January 18, 2018

## Schedule of Findings and Responses

### Finding 2017- A

#### Significant Deficiency in Internal Control over Financial Reporting – Segregation of Duties

*Condition* – The Fund does not have enough staff to adequately separate duties in cash receipts, cash disbursements, accounts payable and purchasing and related liabilities, and general ledger maintenance and reconciliation.

*Criteria* – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation functions.

*Effect* – Inadequate segregation of duties could adversely affect the Fund's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

*Cause* – There is a limited amount of office employees involved in the internal control process.

*Recommendation* – While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the Fund. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

*View of Responsible Officials and Planned Corrective Actions:* Management of the Fund concurs and will review the recommendation above to determine if there are possible cost effective methods that would assist in mitigating the risk related to segregation of duties.