

SOUTH DAKOTA RISK POOL FUND

AUDIT REPORT

Fiscal Year Ended June 30, 2012

**SOUTH DAKOTA RISK POOL FUND
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

The Honorable Dennis Daugaard
Governor of South Dakota

and

Board of Directors
State of South Dakota Risk Pool Fund

We have audited the financial statements of the South Dakota Risk Pool Fund as of and for the fiscal year ended June 30, 2012 and have issued our report thereon dated February 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the South Dakota Risk Pool Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered management's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of management's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of management's internal control over financial reporting.

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Risk Pool Fund's financial statements are free of 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*.

We noted certain matters that we reported to management of South Dakota Risk Pool Fund in a separate letter dated February 12, 2013.

This report is intended solely for the information and use of management and members of the South Dakota Legislature and is not intended to be and should not be used by anyone other than those specified. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is stylized and cursive, with a large initial "M" and "G".

Martin L. Guindon, CPA
Auditor General

February 12, 2013



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

Board of Directors
State of South Dakota Risk Pool Fund

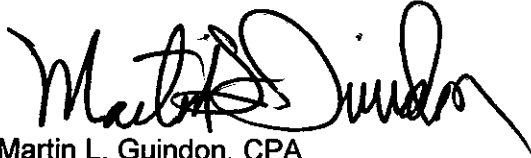
We have audited the accompanying financial statements of the South Dakota Risk Pool Fund, as of and for the years ended June 30, 2012, as listed in the Table of Contents. These financial statements are the responsibility of the South Dakota Risk Pool Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The financial statements present only the financial position and changes in financial position and cash flows of the South Dakota Risk Pool Fund. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2012, and the changes in its financial position and its cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Risk Pool Fund as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013, on our consideration of management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is stylized with a large, looped initial "M" and a long, sweeping tail.

Martin L. Guindon, CPA
Auditor General

February 12, 2013

**Bureau of Personnel
South Dakota Risk Pool Fund
Statement of Net Assets
June 30, 2012**

Assets	
Cash and Cash Equivalents (Note 2)	\$ 6,984,919
Interest and Dividends Receivable	24,311
Accounts Receivable	65,884
Total Assets	<u>7,075,114</u>
Liabilities	
Current Liabilities:	
Accounts Payable	46,866
Accrued Liabilities	4,161
Compensated Absences Payable (Note 4)	1,631
Policy Claim Liabilities (Note 2, 3)	1,132,431
Due to Other Funds	1,325
Deferred Revenue	1,002,018
Total Current Liabilities:	<u>2,188,432</u>
Noncurrent Liabilities:	
Long Term Compensated Absences Payable (Note 4)	<u>1,428</u>
Total Liabilities	<u>2,189,860</u>
Net Assets	
Unrestricted Net Assets	<u>4,885,254</u>
Total Net Assets	<u>\$ 4,885,254</u>

The accompanying notes are in integral part of the financial statements.

**Bureau of Personnel
South Dakota Risk Pool Fund
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2012**

Operating Revenue:	
Premiums (Note 2)	\$ 4,545,617
Carrier Assessments (Note 2)	1,201,515
Total Operating Revenue	<u>5,747,132</u>
Operating Expenses:	
Personal Services and Benefits	81,325
Supplies and Materials	1,601
Contractual Services	348,425
Insurance Claims, net of Refund of Prior Year's Expense of \$174,493	7,657,562
Total Operating Expenses	<u>8,088,913</u>
Operating Loss	(2,341,781)
Non-operating Revenues:	
Interest Income	112,722
Grant and Other Income (Note 5)	636,320
Total Non-operating Revenues	<u>749,042</u>
Loss Before Transfers	(1,592,739)
Transfers	
Transfers In	642,371
Net Transfers	<u>642,371</u>
Change in Net Assets	(950,368)
Beginning Net Assets	5,835,622
Ending Net Assets	<u>\$ 4,885,254</u>

The accompanying notes are an integral part of the financial statements.

**Bureau of Personnel
South Dakota Risk Pool Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012**

Cash Flows from Operating Activities:

Receipts from Premiums	\$ 4,540,850	
Receipts from Carrier Assessments	1,189,623	
Payments to Suppliers for Benefits and Claims	(7,969,585)	
Payments for Employee Services	(81,473)	
Payments for Interfund Services Used	(11,888)	
Other receipts	204,060	
Net Cash Used by Operating Activities		(2,128,413)

Cash Flows From Noncapital Financing Activities:

Transfers In	642,371	
Other Noncapital Financing Activity	636,320	
Net Cash Provided by Noncapital Activities		1,278,691

Cash Flows From Investing Activities:

Investment Income	128,374	
Net Cash Provided by Investing Activities		128,374

Net Decrease in Cash and Cash Equivalents During the Fiscal Year	(721,348)
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Cash and Cash Equivalents at Beginning of Year	7,706,267
Cash and Cash Equivalents at End of Year	<u>\$ 6,984,919</u>

Reconciliation of Operating Loss to Net

Cash Used by Operating Activities:

Operating Loss	\$ (2,341,781)
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Adjustments to Reconcile Operating Loss to Net Cash
Provided by Operating Activities:

Decrease/(Increase) in Assets:

Accounts Receivable	(65,884)
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Increase/(Decrease) in Liabilities:

Accounts Payable	(2,446)
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Accrued Liabilities	886
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Compensated Absences Payable	(1,034)
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Due to Other Funds	(315)
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Deferred Revenue	(17,956)
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Policy Claims Liability	300,117
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Total Adjustments	213,368
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Net Cash Provided (Used) by Operating Activities	<u>\$ (2,128,413)</u>
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The accompanying notes are in integral part of the financial statements.

South Dakota Risk Pool Fund
Notes to the Financial Statements
June 30, 2012

1. Description of the Fund

The South Dakota Risk Pool Fund (SDRP), established in 2003, is part of the State of South Dakota's financial reporting entity and is reported as an enterprise fund in the State's Comprehensive Annual Financial Report.

The South Dakota legislature convened on June 26 and 27, 2003, for a special session requested by Governor M. Michael Rounds to consider legislation that would establish the SDRP. On June 27, 2003, Governor Rounds signed the enabling bill that was passed by the legislature. This bill established a risk pool to provide health coverage to state residents who have involuntarily lost their prior creditable coverage through no fault of their own and who cannot obtain other coverage.

The creation of the SDRP spread the method in which the risk and cost are shared to include the state; the insurance carriers; the medical providers, facilities, and pharmacists; the insurance agents; and the risk pool enrollees. The premise was that the enrollees would pay a higher than average premium, the agents would receive a lower than normal commission, and the state, the providers, and the carriers would have an equal financial partnership in the risk pool.

The Bureau of Personnel is the current administrator of the plan along with a Governor appointed seven-member board. The governing board will provide all appropriate oversight activities. Along with the board, the Governor has also appointed an advisory panel that will make recommendations to the board regarding benefits and exclusions in the risk pool coverage, eligibility for the risk pool, assessments of carriers, and operation of the risk pool.

It is anticipated the South Dakota Risk Pool would terminate December 31, 2013 or extend for a short period of time into 2014. The Patient Protection and Affordable Care Act (PPACA) requires insurance companies to guarantee issue health insurance policies. Insurance companies will not be allowed to charge different premium rates based upon someone's health. The individuals the risk pool was created for will be able to obtain health insurance coverage in the open market, with competitive rates and coverage effective January 1, 2014.

2. Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The accompanying financial statements of the SDRP have been prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements were prepared based upon the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are

recognized in the period incurred if measurable. The SDRP follows GASB pronouncements and those Financial Accounting Standards Boards Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Operating revenues and expenses are directly related to the ongoing activities of the SDRP. Nonoperating revenues and expenses are indirectly related to the ongoing activities of the SDRP, such as investment income. Certain significant revenue streams relied upon by operations are reported as nonoperating revenue, as defined by GASB Statement Number 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, including state appropriations and federal grants.

Cash and Cash Equivalents

Cash and cash equivalents represents the SDRP's participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value. Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501.

Policy Claim Liability

The benefit claim liability amount represents the reserve for incurred but unpaid benefit claims. The amount is estimated using actual claims paid as of November 8, 2012, for services received prior to July 1, 2012, plus estimating the remaining unreported claims based on past experience.

Premium and Assessment Revenue

Premiums are recognized as revenues over the terms of the insurance policies, and a liability for unearned premiums is established to reflect premiums received applicable to subsequent accounting periods. Participating insurers are assessed every year and revenue is recognized over the period covered by the assessment.

3. Policy Claim Liability

Changes in SDRP's policy claim liability balances were as follows:

	<u>Beginning Balance</u>	<u>Incurred Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
For the Fiscal Year Ended June 30, 2012	\$ 832,314	\$ 7,928,803	\$ (7,628,686)	\$ 1,132,431

4. **Compensated Absences Payable**

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of employee's annual compensation. The total leave liability of \$3,059 at June 30, 2012, is shown as short and long-term liabilities on the Statement of Net Assets.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences Payable	\$ 4,093	\$ 881	\$ (1,915)	\$ 3,059	\$ 1,631

5. **Federal Grant**

A federal grant reported as non-operating income in the statement of revenues, expenses, and changes in net fund assets is a federally funded seed grant. Information about the grant is as follows:

CFDA Number: 93.781
Federal Agency: Department of Health and Human Services
Program: State High Risk Pool Health Insurance Pool Program
State Agency: South Dakota Bureau of Personnel
Expenditures: \$636,320

6. **Retirement Plan**

The SDRP participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The SDRP's contributions to the SDRS for the fiscal year ended June 30, 2012, 2011 and 2010 were \$3,866, \$3,871, and \$3,582, respectively, equal to the required contributions each year.

7. Public Entity Pool for Liability

The Bureau of Personnel, who administers the SDRP, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Bureau of Personnel is uninsured for property loss. The Bureau of Personnel participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include: 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omission liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund; 2) coverage of employee medical claims through the State's health insurance program; 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund; and, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.