



Financial Statements  
June 30, 2023 and 2022

# ASB Workers' Compensation Fund

ASB Workers' Compensation Fund

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June 30, 2023 and 2022

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## Independent Auditor's Report

To the Board of Trustees  
ASB Workers' Compensation Fund  
Pierre, South Dakota

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of ASB Workers' Compensation Fund (Fund) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *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, 2023 and 2022, 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.

### ***Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Ten-Year Schedule of Claims Development Information be presented to supplement the basic financial statements. Such information, is the responsibility of management and, 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 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.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2024, 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 solely 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.

*Eide Bailly LLP*

Fargo, North Dakota  
March 8, 2024

## ASB Workers' Compensation Fund

Statements of Net Position

June 30, 2023 and 2022

|  | 2023          | 2022          |
|--|---------------|---------------|
| Assets                                     |               |               |
| Current Assets                             |               |               |
| Cash and cash equivalents                  | \$ 1,765,342  | \$ 1,721,884  |
| Receivables                                |               |               |
| Member contributions                       | 95,886        | 59,559        |
| Reinsurance recoverable on paid losses     | 34,414        | 75,777        |
| Accounts receivable                        | 4,454         | -             |
| Current portion of annuity receivable      | 7,422         | 11,000        |
| Certificates of deposit - participating    | 1,478,724     | 998,805       |
| Certificates of deposit - nonparticipating | 1,242,000     | 1,743,000     |
| Total current assets                       | 4,628,242     | 4,610,025     |
| Noncurrent Assets                          |               |               |
| Annuity receivable, less current position  | 24,078        | 24,000        |
| Certificates of deposit - participating    | 2,490,217     | 3,551,103     |
| Certificates of deposit - nonparticipating | 6,474,000     | 5,225,999     |
| Investment in external pool                | 35,467        | 266,823       |
| Investments in mutual funds                | 1,285,888     | 1,267,767     |
| Investments in debt securities             | -             | 308,344       |
| Total noncurrent assets                    | 10,309,650    | 10,644,036    |
| Total assets                               | \$ 14,937,892 | \$ 15,254,061 |

ASB Workers' Compensation Fund  
 Statements of Net Position  
 June 30, 2023 and 2022

|   | 2023          | 2022          |
|---|---------------|---------------|
| Liabilities and Net Position  |               |               |
| Current Liabilities   |               |               |
| Current portion of estimated liability for reported and unreported claims and claims adjustment expenses    | \$ 891,673    | \$ 983,941    |
| Accounts payable  | 8,625         | -             |
| Advance member contributions  | 210,386       | 200,024       |
| Member contributions refundable   | 140,426       | 140,482       |
| Deferred annuity revenue  | 7,422         | 8,853         |
| Total current liabilities   | 1,258,532     | 1,333,300     |
| Long-term Liabilities   |               |               |
| Estimated liability for reported and unreported claims and claims adjustment expenses, less current portion | 1,308,061     | 1,521,559     |
| Total liabilities   | 2,566,593     | 2,854,859     |
| Net Position  |               |               |
| Unrestricted net position   | 12,371,299    | 12,399,202    |
| Total liabilities and net position  | \$ 14,937,892 | \$ 15,254,061 |

ASB Workers' Compensation Fund  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2023 and 2022

|   | 2023          | 2022          |
|---|---------------|---------------|
| Operating Revenues                            |               |               |
| Member contributions earned                   | \$ 1,735,269  | \$ 1,921,152  |
| Less: Reinsurance premiums                    | (230,547)     | (231,254)     |
| Net operating revenues                        | 1,504,722     | 1,689,898     |
| Operating Expenses                            |               |               |
| Claims and claim adjustment expenses incurred | 1,634,020     | 2,195,324     |
| Underwriting (loss)                           | (129,298)     | (505,426)     |
| General and Administrative Expenses           |               |               |
| Administrative and service fees               | 173,721       | 222,825       |
| Other   | 42,186        | 28,371        |
| Total general and administrative expenses     | 215,907       | 251,196       |
| Operating (loss)                              | (345,205)     | (756,622)     |
| Nonoperating                                  |               |               |
| Net investment income (loss)                  | 317,302       | (138,145)     |
| Change in net position                        | (27,903)      | (894,767)     |
| Net Position                                  |               |               |
| Beginning of year                             | 12,399,202    | 13,293,969    |
| End of year                                   | \$ 12,371,299 | \$ 12,399,202 |



## ASB Workers' Compensation Fund

### Statements of Cash Flows

Years Ended June 30, 2023 and 2022

|   | 2023         | 2022         |
|---|--------------|--------------|
| Operating Activities  |              |              |
| Contributions received  | \$ 1,713,419 | \$ 1,978,845 |
| Reinsurance premiums paid   | (230,547)    | (231,254)    |
| Underwriting and expenses of operations paid  | (213,838)    | (267,603)    |
| Claims and claims adjustment expenses paid  | (1,898,423)  | (1,527,469)  |
| Net Cash (used for) Operating Activities  | (629,389)    | (47,481)     |
| Investing Activities  |              |              |
| Certificates of deposit   |              |              |
| Purchases   | (5,270,211)  | (2,986,000)  |
| Maturities and redemptions  | 5,322,989    | 3,633,000    |
| (Purchase) sale of external investment pool   | 231,356      | (220)        |
| Net investment income received  | 388,713      | 291,815      |
| Net Cash from Investing Activities  | 672,847      | 938,595      |
| Net Change in Cash and Cash Equivalents   | 43,458       | 891,114      |
| Cash and Cash Equivalents at Beginning of Year  | 1,721,884    | 830,770      |
| Cash and Cash Equivalents at End of Year  | \$ 1,765,342 | \$ 1,721,884 |
| Reconciliation of Operating Income to Net Cash (used for) Operating Activities        |              |              |
| Operating Activities:   |              |              |
| Operating (Loss)  | \$ (345,205) | \$ (756,622) |
| (Increase) decrease in assets:  |              |              |
| Member contributions receivable   | (36,327)     | (24,107)     |
| Annuities receivable  | 3,500        | (25,260)     |
| Reinsurance recoverable on paid losses  | 41,363       | 18,082       |
| Accounts receivable   | (4,454)      | -            |
| Increase (decrease) in liabilities:   |              |              |
| Estimated liability for reported and unreported claims and claims adjustment expenses | (305,766)    | 649,773      |
| Accounts payable  | 8,625        | -            |
| Advance member contributions  | 10,362       | 19,921       |
| Member contributions refundable   | (56)         | 61,879       |
| Deferred annuity revenue  | (1,431)      | 8,853        |
| Net Cash (used for) Operating Activities  | \$ (629,389) | \$ (47,481)  |
| Supplemental Disclosures of Non-Cash Information                                      |              |              |
| Financing Activities  |              |              |
| Net decrease in the fair value of investments   | \$ (71,412)  | \$ (429,961) |

**Note 1 - Nature of Business and Significant Accounting Policies****Reporting Entity**

ASB Workers' Compensation 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 provision as provided for in the law. 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 1989 to provide workers' compensation 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 74 and 76 members of the Fund as of June 30, 2023 and 2022, respectively, which are 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 workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. 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 ongoing operations. Nonoperating revenues and expenses result primarily from investment activities.

The Fund is exposed to various risks of loss related to torts, 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 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.

In the event of the 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 and at such point in time that the Board of Trustees is assured all liabilities have been satisfied.

**Basis of Presentation**

The financial statements have been prepared using the accrual basis of accounting. The Pool 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 disclosures 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 related to the determination of estimated fair values of investments, 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 and 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. As of June 30, 2023 and 2022 there were no allowance for doubtful accounts established.

Annuities receivable are stated at amortized cost, adjusted for unearned discounts. Unearned discounts are amortized by the interest method over the remaining contractual term of the related annuity and reported as an adjustment to interest income.

### **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 under excess of loss of aggregate coverages are estimated in a manner consistent with the development of the estimated liability for reported and unreported claims and claims adjustment expenses.

Amounts recoverable from reinsurers that relate to paid claims and claim adjustment expenses are classified as assets, net of an allowance for any estimated uncollectible amounts, and as a reduction to claims expenses incurred. Estimated amounts recoverable from reinsurers that related to unpaid claims and claims adjustment expenses are recorded as a reduction of insurance liabilities and claims expenses incurred. Reinsurance premiums paid and reinsurance recoveries on claims are netted against related earned member contributions and claims and claims adjustment expenses incurred, respectively.

**Fair Value Measurements**

The Company has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability. There have been no changes in Level 1, Level 2, and Level 3 and no changes in valuation techniques for these assets or liabilities for the years ended June 30, 2023 and 2022.

**Investments**

The Fund reports investments (other than nonparticipating certificates of deposit) at fair value in the statement of net position with changes in the fair value of investments reported as investment income.

Participating certificates of deposit are reported at fair value and nonparticipating certificates of deposit are reported at cost.

Dividend and interest income are recognized when earned.

The calculation of realized gains and losses is independent of the calculation of the net increase (decrease) in the fair value of investments. Realized gains and losses on investments that had been held for more than one year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

All investments with a maturity of one year or less are recorded as current assets.

**Investments in External Pool**

The Fund has investments held in an investment pool that qualifies as an external investment pool that elects to measure for financial reporting purposes all of their investments at amortized cost. The participants in these pools should measure their investments at amortized cost for financial reporting purposes. This measurement approximates fair value and mirrors the operation of the external investment pool that transact with the participant. As there is a readily determinable fair value the investments will be disclosed as an asset measured at fair value. There is no presence of any limitation or restrictions on participant withdrawals from this external investment pool.

**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 exempt status has not been requested.

**Operating Revenues**

Members are billed annually in advance for a deposit contribution. After the end of the policy year, members are billed or (refunded) any additional (excess) contributions as a result of payroll audits. 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. The Fund has established a contribution relief plan that may reduce the participating member's contribution through 2024. The annual amount of relief is contingent on board approval during the period of relief, and therefore, no accrued liability is recognized prior to approval as the contributions are presented net of relief when earned.

**Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses**

The coverage offered by the Fund is on an occurrence basis which provides for payment of claims that occur during the period of coverage regardless of when the claim is reported. 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 claim 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 not reasonably estimated until known. The liability is calculated using a 90% confidence interval and at present value using a 2.0% discount factor as of June 30, 2023 and 2022.

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.

**Contribution Deficiency Reserve**

To the extent that contributions received or to be received for specific classes of business are insufficient to cover estimated healthcare and other costs over the life of the underlying contracts, the Fund establishes an accrual for the related contribution deficiency. The Fund anticipates investment income in determining if a contribution deficiency exists. For the years ended June 30, 2023 and 2022, there was no contribution deficiency reserve recorded.

### **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 currently 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, 2023 and 2022. Discretionary dividends are reported as an expense of the Fund in the year declared.

### **Subsequent Events**

The Fund has evaluated subsequent events through March 8, 2024, the date which the financial statements were available to be issued.

## **Note 2 - Deposits and Investments**

### **Authorized Investments**

The Fund's investment policy and South Dakota Codified Law 4-5-6 authorize investments only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. In addition, the Fund's investment policy allows for investments in certificates of deposit of banks which are insured by the FDIC or any similar organization.

### **Custodial Credit Risk**

The Fund's deposits are comprised of deposit, money market funds, savings accounts and demand accounts, which have bank balances totaling \$203,036 and \$598,932 as of June 30, 2023 and 2022, respectively. Custodial credit risk on deposits 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, 2023 and 2022, deposits of \$0 and \$348,932 were exposed to custodial credit risk, as they were uninsured, and the collateral was held by the pledging bank not in the Fund's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (i.e., broker-dealer) to a transaction, the Fund will not be able to recover the value of its investments that are in the possession of another party. As of June 30, 2023 and 2022, investments of \$14,669,168 and \$14,606,749 were exposed to custodial credit risk as they were uninsured and not registered in the Fund's name.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Maturities of most fixed income securities are limited to 10 years as a means to managing exposure to fair value losses arising from increasing interest rates.

As of June 30, 2023, the Fund had the following fixed income securities and maturities:

| Investment Type                            | Fair Value/<br>Carrying Value | Investment Maturities (in Years) |                     |             |              |
|--|-------------------------------|----------------------------------|---------------------|-------------|--------------|
|  |                               | Less Than 1                      | 1 - 5               | 6 - 10      | More Than 10 |
| Certificates of Deposit - Participating    | \$ 3,968,941                  | \$ 1,478,724                     | \$ 2,490,217        | \$ -        | \$ -         |
|  | <u>\$ 3,968,941</u>           | <u>\$ 1,478,724</u>              | <u>\$ 2,490,217</u> | <u>\$ -</u> | <u>\$ -</u>  |
|  | Cost                          | Less Than 1                      | 1 - 5               | 6 - 10      | More Than 10 |
| Certificates of Deposit - Nonparticipating | \$ 7,716,000                  | \$ 1,242,000                     | \$ 6,474,000        | \$ -        | \$ -         |
|  | <u>\$ 7,716,000</u>           | <u>\$ 1,242,000</u>              | <u>\$ 6,474,000</u> | <u>\$ -</u> | <u>\$ -</u>  |

As of June 30, 2022, the Fund had the following fixed income securities and maturities:

| Investment Type                            | Fair Value/<br>Carrying Value | Investment Maturities (in Years) |                     |             |              |
|--|-------------------------------|----------------------------------|---------------------|-------------|--------------|
|  |                               | Less Than 1                      | 1 - 5               | 6 - 10      | More Than 10 |
| U.S. Treasury Issues                       | \$ 308,344                    | \$ 308,344                       | \$ -                | \$ -        | \$ -         |
| Certificates of Deposit - Participating    | 4,549,908                     | 998,805                          | 3,551,103           | -           | -            |
|  | <u>\$ 4,858,252</u>           | <u>\$ 1,307,149</u>              | <u>\$ 3,551,103</u> | <u>\$ -</u> | <u>\$ -</u>  |
|  | Cost                          | Less Than 1                      | 1 - 5               | 6 - 10      | More Than 10 |
| Certificates of Deposit - Nonparticipating | \$ 6,968,999                  | \$ 1,743,000                     | \$ 5,225,999        | \$ -        | \$ -         |
|  | <u>\$ 6,968,999</u>           | <u>\$ 1,743,000</u>              | <u>\$ 5,225,999</u> | <u>\$ -</u> | <u>\$ -</u>  |

The earned interest incomes during the years ended June 30, 2023 and 2022 was \$286,191 and \$251,075, respectively. The earned dividend income during the years ended June 30, 2023 and 2022 was \$126,558 and \$46,598, respectively.

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Trust's investment policy does not address credit ratings.

### Concentration of Credit Risk

The Trust's investment policy for the years ended June 30, 2023 and 2022 also provides that no single security shall comprise more than 5% of the total investment portfolio with the exception of obligations of the U.S. government and its fully-guaranteed agencies. There were no such securities comprising more than 5% of the total investment portfolio. The investment policy also provides for the following allowable asset ranges by asset class:

|                            | Minimum | Maximum |
|----------------------------|---------|---------|
| Cash Equivalents           | 2%      | 20%     |
| Certificates of Deposit    | 0%      | 90%     |
| U.S. Government Securities | 0%      | 90%     |
| Agency Securities          | 0%      | 25%     |
| Corporate Bonds            | 0%      | 10%     |
| School District Bonds      | 0%      | 10%     |

The Fund maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2023, and December 31, 2022, the Company had approximately \$0 and \$348,932, respectively, in excess of FDIC-insured limits.

### Note 3 - Fair Value of Assets and Liabilities

There are three general valuation techniques that may be used to measure fair value, as described below:

1. Market Approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
2. Cost Approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
3. Income Approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.



## ASB Workers' Compensation Fund

Notes to Financial Statements

June 30, 2023 and 2022

Assets and liabilities itemized below were measured at fair value during the year ended using the market and income approaches. The market approach was used for Level 1 and Level 2 assets and liabilities.

|  | Total               | Quoted Prices in<br>Active Markets<br>(Level 1) | Other Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
|--|---------------------|---|---|-------------------------------------|
| <b>June 30, 2023</b>                       |                     |   |   |                                     |
| Mutual Funds                               | \$ 1,285,888        | \$ 1,285,888                                    | \$ -                                    | \$ -                                |
| Investments in                             |                     |   |   |                                     |
| External pool                              | 35,467              | -   | 35,467                                  | -                                   |
| U.S. Treasury issues                       | -                   | -   | -                                       | -                                   |
| Certificates of deposit<br>- participating | 3,968,941           | -   | 3,968,941                               | -                                   |
| <b>Total assets</b>                        | <b>\$ 5,290,296</b> | <b>\$ 1,285,888</b>                             | <b>\$ 4,004,408</b>                     | <b>\$ -</b>                         |
| <br>                                       |                     |   |   |                                     |
|  | Total               | Quoted Prices in<br>Active Markets<br>(Level 1) | Other Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
| <b>June 30, 2022</b>                       |                     |   |   |                                     |
| Mutual Funds                               | \$ 1,267,767        | \$ 1,267,767                                    | \$ -                                    | \$ -                                |
| Investments in                             |                     |   |   |                                     |
| External pool                              | 266,823             | -   | 266,823                                 | -                                   |
| U.S. Treasury issues                       | 308,344             | -   | 308,344                                 | -                                   |
| Certificates of deposit<br>- participating | 4,549,908           | -   | 4,549,908                               | -                                   |
| <b>Total assets</b>                        | <b>\$ 6,392,842</b> | <b>\$ 1,267,767</b>                             | <b>\$ 5,125,075</b>                     | <b>\$ -</b>                         |

The net change in the fair value of investments during the years ended June 30, 2023 and 2022 was \$71,412 and \$429,961, respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year.

#### **Note 4 - Service Agreements**

The Fund has an agreement with Claims Associates, Inc. (CAI) to provide workers' compensation claims administrative services for claims incurred. Total fees under this agreement for the fiscal years ended June 30, 2023 and 2022 were \$376,176 and \$357,946, respectively, and are included in claims and claims adjustment expenses incurred in the statements of revenues, expenses and changes in net position.

The Fund maintains agency accounts with BankWest. Fees incurred to BankWest during the fiscal years ended June 30, 2023 and 2022 were \$32,888 and \$33,189, respectively, and are netted against investment income 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 risks. During each of the fiscal years ended June 30, 2023 and 2022, the reinsurance agreement provided that individual claims in excess of \$600,000 to a reinsurer employers' liability limit of \$2,000,000 during 2023 and 2022, were indemnified. Meanwhile, during 2023 and 2022 the individual claim indemnification of statutory benefits was unlimited by the reinsurer.

The Fund would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. Reinsurance of \$591,922 and \$654,826 was deducted from the estimated liability for reported and unreported claims and claim adjustment expenses as of June 30, 2023 and 2022, respectively. During the fiscal years ended June 30, 2023 and 2022, claims expense was net of \$34,414 and \$75,777 respectively, of recoveries from reinsurance companies under contract.

**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, 2023 and 2022.

|   | <u>2023</u>         | <u>2022</u>         |
|---|---------------------|---------------------|
| Reported and unreported claims and claims adjustment expense liabilities at beginning of year | \$ 2,505,500        | \$ 1,855,727        |
| Incurred claims and claims adjustment expenses  |                     |                     |
| Provision for insured events of the current year  | 1,674,820           | 2,077,504           |
| Provision for insured events of prior years   | (40,800)            | 117,820             |
| Total incurred claims and claims adjustment expenses  | <u>1,634,020</u>    | <u>2,195,324</u>    |
| Payments  |                     |                     |
| Claims and claims adjustment expenses attributable to insured events of the current year      | 944,111             | 944,436             |
| Claims and claims adjustment expenses attributable to insured events of prior years           | 954,312             | 583,033             |
| Total payments  | <u>1,898,423</u>    | <u>1,527,469</u>    |
| Less reinsurance recoverable at beginning of year   | (75,777)            | (93,859)            |
| Plus reinsurance recoverable at end of year   | 34,414              | 75,777              |
| Reported and unreported claims and claims adjustment expense liabilities at end of year       | <u>\$ 2,199,734</u> | <u>\$ 2,505,500</u> |

The 2023 favorable development and 2022 unfavorable development in prior year provisions of incurred claims and claims adjustment expenses resulted from loss development experience as more information became known and payments made. There were no significant changes to assumption in the methodology to establish these significant estimates during the years ended June 30, 2023 and 2022.

#### **Note 7 - 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.

As of June 30, 2023 and 2022, the Fund had no receivables from related parties.

#### **Administration Agreement**

The Trust oversees three sub-funds known as the ASB Workers' Compensation Fund, ASB Property and Liability Fund, and South Dakota School District Benefit Fund (Benefit 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 ten percent of the contributions earned, including agent fees, by ASBSD from member school districts on behalf of the Fund. Amounts incurred by the Fund under the agreement during the fiscal years ended June 30, 2023 and 2022 were \$173,557 and \$201,396, respectively. The agreement was effective on July 1, 2017 for one year and automatically renews for annually for the period July 1 through June 30 unless either party gives written notice of intent not to renew at least twelve months prior to the termination date. No notice of intent was given by either party during the years ended June 30, 2023 and 2022.

#### **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. As of June 30, 2023 and 2022, there were no advances with other funds.

#### **Note 8 - 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.



Required Supplementary Information  
June 30, 2023 and 2022

## ASB Workers' Compensation Fund

**ASB Workers' Compensation Fund**  
**Ten-Year Schedule of Claims Development Information - Unaudited**  
**Years Ended June 30, 2023**

|  | 2014         | 2015         | 2016         | 2017         | 2018         | 2019         | 2020         | 2021         | 2022         | 2023         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net earned member contributions and investment income                                      |              |              |              |              |              |              |              |              |              |              |
| Earned   | \$ 2,376,135 | \$ 2,398,609 | \$ 2,626,067 | \$ 2,729,422 | \$ 2,427,351 | \$ 3,029,161 | \$ 2,522,993 | \$ 2,199,390 | \$ 1,783,007 | \$ 2,052,571 |
| Ceded  | (110,774)    | (113,207)    | (116,916)    | (137,290)    | (149,717)    | (228,704)    | (255,776)    | (233,131)    | (231,254)    | (230,547)    |
| Net earned   | 2,265,361    | 2,285,402    | 2,509,151    | 2,592,132    | 2,277,634    | 2,800,457    | 2,267,217    | 1,966,259    | 1,551,753    | 1,822,024    |
| Unallocated Expenses   | 335,667      | 279,813      | 286,211      | 299,386      | 392,784      | 247,560      | 247,006      | 227,895      | 251,196      | 215,907      |
| Estimated claims and expenses, end of policy year  |              |              |              |              |              |              |              |              |              |              |
| Incurred   | 1,783,391    | 1,424,373    | 1,408,987    | 1,711,275    | 1,731,878    | 1,970,027    | 2,142,908    | 1,385,495    | 2,077,504    | 1,674,820    |
| Ceded  | (49,391)     | (181,373)    | (132,987)    | (64,683)     | (48,623)     | (49,828)     | (386,908)    | (308,495)    | (507,504)    | (74,820)     |
| Net incurred   | 1,734,000    | 1,243,000    | 1,276,000    | 1,646,592    | 1,683,255    | 1,920,199    | 1,756,000    | 1,077,000    | 1,570,000    | 1,600,000    |
| Net paid (cumulative) as of  |              |              |              |              |              |              |              |              |              |              |
| End of policy year   | 559,203      | 394,733      | 426,336      | 544,141      | 1,184,349    | 1,257,615    | 2,015,595    | 491,876      | 617,176      | 620,656      |
| One year later   | 1,297,391    | 727,795      | 847,768      | 1,231,287    | 1,225,588    | 1,362,694    | 1,355,310    | 834,643      | 1,273,814    |              |
| Two years later  | 1,389,964    | 763,256      | 1,107,637    | 1,206,606    | 1,230,449    | 1,156,888    | 1,559,046    | 924,598      |              |              |
| Three years later  | 1,443,408    | 859,610      | 1,050,803    | 1,219,790    | 1,119,490    | 1,173,420    | 1,702,893    |              |              |              |
| Four years later   | 1,709,919    | 839,675      | 1,027,066    | 1,663,864    | 1,112,458    | 1,183,053    |              |              |              |              |
| Five years later   | 1,688,146    | 827,227      | 967,408      | 1,676,334    | 1,112,458    |              |              |              |              |              |
| Six years later  | 1,668,281    | 784,631      | 971,778      | 1,712,981    |              |              |              |              |              |              |
| Seven years later  | 1,591,872    | 784,631      | 971,778      |              |              |              |              |              |              |              |
| Eight years later  | 1,591,872    | 784,631      |              |              |              |              |              |              |              |              |
| Nine years later   | 1,591,872    |              |              |              |              |              |              |              |              |              |
| Reestimated ceded claims and expenses *  | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Reestimated net incurred claims and expenses - excluding provision for adverse development |              |              |              |              |              |              |              |              |              |              |
| End of policy year   | 1,734,000    | 1,243,000    | 1,276,000    | 1,646,592    | 1,683,255    | 1,920,199    | 1,756,000    | 1,077,000    | 1,570,000    | 1,600,000    |
| One year later   | 1,770,000    | 1,027,000    | 1,187,000    | 1,352,000    | 1,303,000    | 1,407,000    | 1,793,000    | 1,110,000    | 1,570,000    |              |
| Two years later  | 1,699,000    | 835,000      | 1,092,000    | 1,345,000    | 1,205,000    | 1,296,000    | 1,890,000    | 1,106,000    |              |              |
| Three years later  | 1,667,000    | 834,000      | 967,408      | 1,456,000    | 1,179,000    | 1,300,000    | 1,862,000    |              |              |              |
| Four years later   | 1,861,000    | 794,000      | 967,408      | 1,726,000    | 1,137,000    | 1,320,000    |              |              |              |              |
| Five years later   | 1,856,000    | 784,631      | 967,408      | 1,726,000    | 1,125,000    |              |              |              |              |              |
| Six years later  | 1,837,000    | 784,631      | 994,000      | 1,737,000    |              |              |              |              |              |              |
| Seven years later  | 1,600,000    | 784,631      | 993,000      |              |              |              |              |              |              |              |
| Eight years later  | 1,600,000    | 784,631      |              |              |              |              |              |              |              |              |
| Nine years later   | 1,600,000    |              |              |              |              |              |              |              |              |              |
| Increase (Decrease) in estimated net incurred claims and expenses from end of policy year. | (134,000)    | (458,369)    | (283,000)    | 90,408       | (558,255)    | (600,199)    | 106,000      | 29,000       | -            | -            |

\* Financial information is not available for the respective period

\*\* Note the provision for adverse development is excluded from this table including the increased confidence level selected



**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  
ASB Workers' Compensation 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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of ASB Workers' Compensation Fund (Fund) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated March 8, 2024.

**Report on 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) as a basis for designing 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2023-A and 2023-B that we consider to be significant deficiencies.

**Report on 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 financial statements. 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*.

**ASB Workers’ Compensation Fund’s Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Fund’s response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Fund’s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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



Fargo, North Dakota  
March 8, 2024

## Schedule of Findings and Responses

### Finding 2023 - A

#### **Significant Deficiency in Internal Control over Financial Reporting – Preparation of Financial Statements**

*Condition* – The Fund does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

*Criteria* – A good system of internal accounting control contemplates an adequate system for internally preparing the Fund’s financial statements.

*Effect* – The disclosures in the financial statements could be incomplete.

*Cause* – The Fund does not have an internal control system designed to provide for the preparation of the financial statements being audited.

*Recommendation* – It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*View of Responsible Officials and Planned Corrective Actions* – Management of the Fund concurs and will accept. The governing board does receive quarterly financial statements prepared by Management, but the governing board agrees it is too costly and time prohibitive for Management to prepare the audited financial statements. The governing board request the auditors prepare the audited financial statements. We understand the risk related to having the auditor prepare the audited financial statements and will review the risk associated with such as an on-going item.



## Schedule of Findings and Responses

### Finding 2023 - B

#### 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* –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.