

Financial Statements
June 30, 2021 and 2020

ASB Property and Liability Fund

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Independent Auditor's Report

To the Board of Trustees
ASB Property and Liability Fund
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of ASB Property and Liability Fund (Fund) as of and for the years ended June 30, 2021 and 2020, 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 these 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, 2021 and 2020, 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.

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, 2021 and 2020, 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 Ten-Year Schedule of Claims Development Information on page 16 and the Combining Schedules of the Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses on page 17 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 Schedule of Claims Development Information and the Combining Schedules of the Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses 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.

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 February 1, 2022 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

February 1, 2022

ASB Property and Liability Fund
Statements of Net Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 602,113	\$ 103,839
Receivables		
Due from members	<u>18,058</u>	<u>-</u>
Total current assets	<u>620,171</u>	<u>103,839</u>
Noncurrent Assets		
Investment in external pool	<u>1,199,076</u>	<u>2,148,950</u>
Total assets	<u>\$ 1,819,247</u>	<u>\$ 2,252,789</u>
Liabilities and Net Position		
Current Liabilities		
Current portion of estimated liability for reported and unreported claims and claims adjustment expenses	\$ 1,910,809	\$ 858,564
Accounts payable	28,994	6,870
Reinsurance payable	-	1,061
Related party payable	<u>-</u>	<u>31,791</u>
Total current liabilities	<u>1,939,803</u>	<u>898,286</u>
Long-term Liabilities		
Estimated liability for reported and unreported claims and claims adjustment expenses, less current portion	<u>287,352</u>	<u>225,882</u>
Total liabilities	<u>2,227,155</u>	<u>1,124,168</u>
Net Position		
Unrestricted (deficit)	<u>(407,908)</u>	<u>1,128,621</u>
Total liabilities and net position	<u>\$ 1,819,247</u>	<u>\$ 2,252,789</u>

ASB Property and Liability Fund
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues		
Member contributions earned	\$ 2,122,984	\$ 3,896,031
Less: Reinsurance premiums	<u>(1,059,599)</u>	<u>(1,896,263)</u>
Net operating revenues	<u>1,063,385</u>	<u>1,999,768</u>
Operating expenses		
Claims and claims adjustment expenses incurred, net	<u>2,369,586</u>	<u>995,637</u>
Underwriting (loss) gain	<u>(1,306,201)</u>	<u>1,004,131</u>
General and administrative expenses		
Administrative and services fees	170,016	384,710
Appraisal fees	24,690	6,689
Other	<u>38,685</u>	<u>40,583</u>
Total general and administrative expenses	<u>233,391</u>	<u>431,982</u>
Operating (loss) income	<u>(1,539,592)</u>	<u>572,149</u>
Nonoperating revenues		
Net investment income	<u>3,063</u>	<u>28,373</u>
Change in net position	<u>(1,536,529)</u>	<u>600,522</u>
Net position		
Beginning of year	<u>1,128,621</u>	<u>528,099</u>
End of year	<u>\$ (407,908)</u>	<u>\$ 1,128,621</u>

ASB Property and Liability Fund

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Contributions received	\$ 2,104,926	\$ 3,596,013
Reinsurance premiums paid	(1,059,599)	(1,896,263)
Underwriting and expenses of operations paid	(243,058)	(435,295)
Claims and claims adjustment expenses paid	(1,256,932)	(847,320)
Net Cash (used for) from Operating Activities	(454,663)	417,135
Investing Activity		
Purchase of external investment pool	949,874	(751,899)
Investment income received	3,063	28,373
Net Cash from (used for) Investing Activity	952,937	(723,526)
Net Change in Cash	498,274	(306,391)
Cash and Cash Equivalents, Beginning of Year	103,839	410,230
Cash and Cash Equivalents, End of Year	\$ 602,113	\$ 103,839
Reconciliation of Operating Income to Net Cash From (Used For)		
Operating Activities		
Operating income (loss)	\$ (1,539,592)	\$ 572,149
Decrease in assets:		
Due from member	(18,058)	-
Increase (decrease) in liabilities		
Estimated liability for reported and unreported claims and claims adjustment expenses	1,113,715	148,317
Advance member contributions	-	(300,018)
Accounts payable	22,124	(25,104)
Related party payable	(31,791)	21,791
Reinsurance payable	(1,061)	-
Net cash (used for) from operating activities	\$ (454,663)	\$ 417,135

Note 1 - Principal Business Activity and Significant Accounting Policies**Reporting Entity**

ASB Property and Liability 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 property and liability 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 24 and 40 members of the Fund as of June 30, 2021 and 2020, 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 property and liability 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 investment 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.

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 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 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 and aggregate 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. As of June 30, 2021 and 2020, there was no allowance for doubtful accounts. 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 under excess of loss and 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. As of June 30, 2021 and 2020, the allowance for estimated uncollectible accounts was \$0.

Amounts payable to reinsurers relate to overpayments received from reinsurance companies. In the normal course of business, reinsurance companies may pay large claims in advance in order to provide the Fund adequate financing. The amounts left over are returned to the reinsurance company when the claims are closed.

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.

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 tax-exempt status has not been requested.

Operating Revenues

Members are billed annually 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.

Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses

The coverage offered by the Fund is on an occurrence basis, except for errors and omission coverage, which is on a claims-made basis. Occurrence basis coverage provides for payment of claims that occur during the period of coverage regardless of when the claim is reported. Claims-made coverage provides for the payment of claims that are reported during the policy period. The estimated liability for reported and unreported claims and claims adjustment expenses is based upon data developed by an external actuary. 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 measurable and likely to be received. Given the nature of subrogation, recoveries are considered suspect until payment is received. The liability is reported at estimated value using a 90% confidence interval as of June 30, 2021 and 2020. The liability reported at present value using a 1% discount factor as of June 30, 2021 and 2020.

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.

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, 2021 and 2020. Discretionary dividends are reported as an expense of the Fund in the year declared.

Premium Deficiency Reserve

To the extent that premiums received or to be received for specific classes of business are insufficient to cover estimated costs over the life of the underlying contracts, the Fund establishes an accrual for the related premium deficiency. The Fund anticipates investment income in determining if a premium deficiency exists. During 2021 and 2020, there was no premium deficiency reserve recorded.

Subsequent Events

The Fund has evaluated subsequent events through February 1, 2022, the date which the financial statements were available to be issued.

Note 2 - Deposits

The Fund's cash accounts are comprised of deposit and demand accounts, which have bank balances totaling \$604,494 and \$104,078 as of June 30, 2021 and 2020, respectively. Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. As of June 30, 2021 and 2020, deposits of \$354,494 and \$0, respectively, 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. As of June 30, 2021 and 2020, investments of \$1,199,076 and \$2,148,950 were exposed to custodial credit risk as they were uninsured and not registered in the Fund's name.

Note 3 - Investment in External Pool

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 Property and Liability Fund

Notes to Financial Statements

June 30, 2021 and 2020

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 Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2021				
Investment in External pool	\$ 1,199,076	\$ -	\$ 1,199,076	\$ -
June 30, 2020				
Investment in External pool	\$ 2,148,950	\$ -	\$ 2,148,950	\$ -

Note 4 - Service Agreements

The Fund has an agreement with Claim Associates, Inc. (CAI) to provide property and liability claims administration services for claims incurred. Total fees incurred under this agreement for the fiscal years ended June 30, 2021 and 2020 were \$107,636 and \$124,375, respectively, and are included in claims adjustment expenses in the statement of revenues, expenses and changes in net position.

The Fund has an agreement with CAI for appraisal and loss control services that will expire on May 31, 2022. The agreement provides that the Fund will remit monthly payments based on the time and expense incurred to perform the appraisal and loss control services. Total fees incurred under this agreement for the fiscal years ended June 30, 2021 and 2020 were \$24,690 and \$6,689, respectively, and are included in general and administrative expenses in the statements of revenues, expenses and changes in net position.

Note 5 - Reinsurance

The Fund utilizes reinsurance agreements to limit maximum loss and minimize exposures on larger risks.

The liability reinsurance agreements in effect for the fiscal years ended June 30, 2021 and 2020 provide that individual claims in excess of \$100,000 per occurrence to a reinsurer limit of \$5,000,000 per occurrence are indemnified. The 2021 and 2020 agreements also provide an aggregate stop loss protection amount for aggregate claims in excess of \$219,322 and \$510,262, respectively.

The property reinsurance agreements in effect for the fiscal years ended June 30, 2021 and 2020 provide that individual claims in excess of \$100,000 to a reinsurer limit of \$300,000,000 per occurrence are indemnified. Sublimits apply for certain perils such as flood, business income and other risks. The agreements for the years ended June 30, 2021 and 2020 do not provide an aggregate stop loss protection. Open loss years from 2001 through June 30, 2019 had various levels of aggregate stop loss protection in place.

The crime policy reinsurance agreements in effect for the fiscal years ended June 30, 2021 and 2020 provide that individual claims in excess of \$10,000 to a limit defined in the policy, which varies up to \$1,000,000 in indemnity.

The boiler and machinery reinsurance agreements in effect for the fiscal years ended June 30, 2021 and 2020 provide that individual claims in excess of \$5,000 to a limit defined in the policy, which ranges from \$15,000 to \$5,000,000 per breakdown type are indemnified.

The Fund would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. Estimated reinsurance amounts are deducted from the estimated liability for reported and unreported claims and claims adjustment expenses as of June 30, 2021 and 2020, respectively. Changes in the ultimate loss estimates could impact changes in the reinsurance recoveries offsetting the net reserve. During the fiscal years ended June 30, 2021 and 2020, claims expense was net of \$279,948 and \$412,543, 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, 2021 and 2020.

	2021	2020
Reported and unreported claims and claims adjustment expense liabilities at beginning of year	\$ 1,084,446	\$ 936,129
Plus reinsurance recoverable at beginning of year	1,061	1,061
	1,085,507	937,190
Incurred claims and claims adjustment expenses		
Provision for insured events of the current year	1,780,628	948,298
Provision for insured events of prior years	588,958	47,339
	2,369,586	995,637
Total incurred claims and claims adjustment expenses		
Payments		
Claims and claims adjustment expenses attributable to insured events of the current year	554,710	449,463
Claims and claims adjustment expenses attributable to insured events of prior years	702,222	397,857
	1,256,932	847,320
Total payments		
Less net reinsurance recoverable at end of year	-	(1,061)
Reported and unreported claims and claims adjustment expense liabilities at end of year	\$ 2,198,161	\$ 1,084,446

The 2021 and 2020 increase in the 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 - 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, 2021 and 2020, the Fund owes a related party \$0 and \$31,791 for shared expenses, respectively.

Administration Agreement

The Trust oversees three sub-funds known as the ASB Property and Liability Fund, ASB Workers' Compensation Fund, and the South Dakota School District 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, from member school districts on behalf of the Fund. Amounts incurred by the Fund under the agreement during the fiscal years ended June 30, 2021 and 2020, were \$170,016 and \$384,710, respectively. The agreement was effective on July 1, 2017 for one year and automatically renews 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 2021.

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, 2021 and 2020

ASB Property and Liability Fund

ASB Property and Liability Fund
Ten- Year Schedule of Claims Development Information – Unaudited
Year Ended June 30, 2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net earned member contributions and investment income										
Earned	\$ 2,298,666	\$ 2,356,098	\$ 2,572,877	\$ 2,779,108	\$ 3,215,919	\$ 3,016,215	\$ 3,085,913	\$ 2,938,404	\$ 3,924,404	\$ 2,126,047
Ceded	(1,062,560)	(1,132,358)	(1,127,904)	(1,258,163)	(1,529,002)	(1,388,260)	(1,613,713)	(1,563,118)	(1,896,263)	(1,059,599)
Net earned	1,236,106	1,223,740	1,444,973	1,520,945	1,686,917	1,627,955	1,472,200	1,375,286	2,028,141	1,066,448
Unallocated expenses	366,400	406,991	446,780	391,367	463,251	366,151	362,416	354,519	431,982	233,391
Estimated claims and expenses, end of policy year										
Incurred	1,466,533	974,178	4,074,242	3,330,496	2,519,832	2,165,453	2,270,951	2,638,122	1,409,325	2,078,548
Ceded	(363,590)	(14,766)	(2,275,371)	(2,366,414)	(1,174,253)	(945,890)	(511,294)	(1,772,213)	(461,027)	(297,920)
Net incurred	1,102,943	959,412	1,798,871	964,082	1,345,579	1,219,563	1,759,657	865,909	948,298	1,780,628
Net paid (cumulative) as of										
End of policy year	400,913	465,318	633,089	171,405	802,477	535,973	606,048	418,749	325,088	447,074
One year later	734,473	624,365	1,000,617	799,752	929,580	633,932	1,054,755	678,158	1,120,432	
Two years later	611,221	623,410	1,001,423	808,075	947,625	698,953	1,094,126	736,703		
Three years later	686,581	618,626	1,003,767	808,166	965,907	698,953	1,088,083			
Four years later	686,581	623,428	1,190,249	808,166	975,504	698,953				
Five years later	686,581	618,097	1,211,331	808,166	993,102					
Six years later	686,581	618,097	1,213,533	808,166						
Seven years later	686,581	617,663	1,215,152							
Eight years later	686,581	617,663								
Nine years later	686,581									
Reestimated ceded claims and expenses	363,590	14,766	2,275,371	2,366,414	1,174,253	945,890	511,294	1,772,213	461,027	297,920
Reestimated net incurred claims and expenses										
End of policy year	1,105,660	1,102,943	959,412	964,082	1,345,579	1,219,563	1,759,657	865,909	774,000	1,780,628
One year later	876,707	806,436	1,278,302	951,913	1,163,545	850,984	1,137,000	763,463	1,463,707	-
Two years later	755,407	685,271	1,045,582	832,000	968,645	806,000	1,215,000	745,949		
Three years later	686,611	619,083	1,014,582	809,121	991,661	698,953	1,185,308			
Four years later	686,581	623,884	1,219,356	808,166	1,018,645	698,953				
Five years later	686,581	618,881	1,219,695	808,166	993,102					
Six years later	686,581	618,881	1,258,396	808,166						
Seven years later	686,581	618,119	1,230,396							
Eight years later	686,581	618,119								
Nine years later	686,581									
Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(419,079)	(484,824)	270,984	(155,916)	(352,477)	(520,610)	(574,349)	(119,960)	689,707	-

ASB Property and Liability Fund

Combining Schedules of the Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses – Unaudited
Years Ended June 30, 2021 and 2020

	2021			2020		
	Property	Liability	Total	Property	Liability	Total
Reported and unreported claims and claims adjustment expense liabilities at beginning of year	\$ 582,850	\$ 501,596	\$ 1,084,446	\$ 643,632	\$ 292,497	\$ 936,129
Less reinsurance recoverable at beginning of year	-	1,061	1,061	-	1,061	1,061
	<u>582,850</u>	<u>502,657</u>	<u>1,085,507</u>	<u>643,632</u>	<u>293,558</u>	<u>937,190</u>
Incurred claims and claims adjustment expenses						
Provision for insured events of the current year	1,590,102	190,526	1,780,628	509,674	438,624	948,298
Provision for insured events of the prior years	<u>662,501</u>	<u>(73,543)</u>	<u>588,958</u>	<u>(180,890)</u>	<u>228,229</u>	<u>47,339</u>
Total incurred claims and claims adjustment expenses	<u>2,252,603</u>	<u>116,983</u>	<u>2,369,586</u>	<u>328,784</u>	<u>666,853</u>	<u>995,637</u>
Payments						
Claims and claims adjustment expenses attributable to insured events of the current year	534,397	20,313	554,710	334,897	114,566	449,463
Claims and claims adjustment expenses attributable to insured events of prior years	<u>338,095</u>	<u>364,127</u>	<u>702,222</u>	<u>54,669</u>	<u>343,188</u>	<u>397,857</u>
	<u>872,492</u>	<u>384,440</u>	<u>1,256,932</u>	<u>389,566</u>	<u>457,754</u>	<u>847,320</u>
Plus reinsurance recoverable at end of year	-	-	-	-	(1,061)	(1,061)
Reported and unreported claims and claims adjustment expense liabilities at end of year	<u>\$ 1,962,961</u>	<u>\$ 235,200</u>	<u>\$ 2,198,161</u>	<u>\$ 582,850</u>	<u>\$ 501,596</u>	<u>\$ 1,084,446</u>

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 Property and Liability 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 ASB Property and Liability Fund (Fund) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated February 1, 2022.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as 2021-A and 2021-B to be significant deficiencies.

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, and contracts, 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 Property and Liability Fund’s Response to Findings

The Fund’s response to the findings identified in our audit are described in the accompanying 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.



Fargo, North Dakota
February 1, 2022

Schedule of Findings and Responses

Finding 2021- 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 review the recommendation for future remedy. 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 financial statements. The governing board request the auditors prepare the financial statements. We understand the risk related to having the auditor prepare the financial statements and will review the risk associated with such as an on-going item.

Schedule of Findings and Responses

Finding 2021- 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 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.