Financial Statements
June 30, 2018 and 2017

# South Dakota School District Benefits Fund

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# Independent Auditor's Report

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

**Report on the Financial Statements**
We have audited the accompanying financial statements of the South Dakota School District Benefit Fund (Fund) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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**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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**
As discussed in Note 1, the financial statements of the Fund reporting entity are intended to present the net position, changes in net position, and cash flows of only the activities of the Fund. They do not purport to, and do not, present fairly the financial position of the Associated School Boards Protective Trust as of June 30, 2018 and 2017, and the changes in its net position or its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*
Accounting principles generally accepted in the United States of America require that the Schedule of Claims Development Information on page 12 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 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 to place the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the 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 7, 2019 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 7, 2019

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 3,880,928 | $ 989,191 |
| Receivables | | |
| Member contributions | 1,433,724 | 1,806,757 |
| Assessment receivable | 1,527,379 | 6,031,599 |
| Assessment interest receivable | 1,665 | 93,680 |
| Refunds receivable | 9,569 | 250,000 |
| Pharmacy rebates receivable | 428,895 | 601,111 |
| Total current assets | 7,282,160 | 9,772,338 |
| **Long-Term Assets** | | |
| Assessment receivable | 2,974,638 | 4,558,118 |
| Total assets | $ 10,256,798 | $ 14,330,456 |
| **Liabilities and Net Position** | | |
| **Current Liabilities** | | |
| Estimated liability for reported and unreported claims and claims adjustment expenses | 2,750,000 | 2,600,000 |
| Accounts payable | - | 10,950 |
| Advance from ASB Workers' Compensation Fund | - | 600,000 |
| Advance member contributions | 12,616 | 78,023 |
| Total current liabilities | 2,762,616 | 3,288,973 |
| **Long-term Liabilities** | | |
| Advance from ASB Workers' Compensation Fund, net of current portion | - | 6,600,000 |
| Total liabilities | 2,762,616 | 9,888,973 |
| **Net Position** | | |
| Surplus - unrestricted | 7,494,182 | 4,441,483 |
| Total liabilities and net position | $ 10,256,798 | $ 14,330,456 |

| | 2018 | 2017 |
|---|---|---|
| Operating revenues | | |
| Member contributions earned | $ 39,840,539 | $ 37,894,362 |
| Less: Reinsurance premiums | (2,068,348) | (1,924,561) |
| Net operating revenues | 37,772,191 | 35,969,801 |
| Operating expenses | | |
| Claims and claims adjustment expenses incurred, net | 33,322,492 | 29,737,964 |
| Underwriting gain | 4,449,699 | 6,231,837 |
| General and administrative expenses | | |
| Administrative and services fees, ASBSD | 700,000 | 700,000 |
| Other | 500,700 | 517,675 |
| Total general and administrative expenses | 1,200,700 | 1,217,675 |
| Operating gain | 3,248,999 | 5,014,162 |
| Nonoperating revenues and (expenses) | | |
| Interest income | 15,354 | 380 |
| Interest expense | | |
| ASB Workers' Compensation Fund | (12,959) | (132,727) |
| Note payable | - | (21,048) |
| Total nonoperating revenues and (expenses) | 2,395 | (153,395) |
| Net change in net position | 3,251,394 | 4,860,767 |
| Net position | | |
| Beginning of year | 4,441,483 | (12,113,126) |
| Net change in net position | 3,251,394 | 4,860,767 |
| Assessment principal and interest recognized | 68,560 | 11,693,842 |
| Assessment interest forbearance | (267,255) | - |
| End of year | $ 7,494,182 | $ 4,441,483 |

See Notes to Financial Statements

| | 2018 | 2017 |
|---|---|---|
| Operating Activities | | |
| Contributions received | $ 40,388,596 | $ 36,495,310 |
| Reinsurance premiums paid | (2,068,348) | (1,924,561) |
| Underwriting and expenses of operations paid | (1,211,650) | (1,281,179) |
| Claims and claims adjustment expenses paid | (33,000,276) | (30,231,354) |
| Net Cash from Operating Activities | 4,108,322 | 3,058,216 |
| Investing Activity | | |
| Investment income received | 15,354 | 380 |
| Non-Capital Financing Activities | | |
| Net payments on note payable | - | (1,800,250) |
| Net payments to ASB Workers Compensation Fund | (7,200,000) | (1,397,372) |
| Interest paid on: | | |
| Advance, ASB Workers' Compensation Fund | (12,959) | (190,831) |
| Note payable | - | (21,048) |
| Net assessment interest received | (106,680) | - |
| Assessment principal received | 6,087,700 | 1,010,445 |
| Net Cash used for Non-Capital Financing Activities | (1,231,939) | (2,399,056) |
| Net Change in Cash | 2,891,737 | 659,540 |
| Cash and Cash Equivalents, Beginning of Year | 989,191 | 329,651 |
| Cash and Cash Equivalents, End of Year | $ 3,880,928 | $ 989,191 |

| | 2018 | 2017 |
|---|---|---|
| Reconciliation of Operating Gain to Net Cash Used in Operating Activities | | |
| Operating Gain | $ 3,248,999 | $ 5,014,162 |
| Changes in assets and liabilities: | | |
| (Increase) / decrease in receivables | 785,680 | (1,143,007) |
| Increase (decrease) in estimated liability for reported and unreported claims and claims adjustment expenses | 150,000 | (726,356) |
| Decrease in accounts payable | (10,950) | (63,504) |
| Decrease in advance member contributions | (65,407) | (23,079) |
| | $ 4,108,322 | $ 3,058,216 |

## Note 1 - Principal Business Activity and Significant Accounting Policies

### Reporting Entity

The South Dakota School District Benefit Fund (Fund) is one of three sub-funds of the Associated School Boards Protective Trust (Trust). The Trust is a separate legal entity pursuant to South Dakota Codified law formed under the joint powers provisions as provided for in the laws. The Trust is governed by a Joint Powers Agreement and Bylaws (Bylaws). Each member also annually signs a Participation Agreement, which also binds the member to adhere to the Trust's Bylaws. The Fund was formed in 1991 to provide health coverage for member organizations belonging to the Associated School Boards of South Dakota (ASBSD). To be eligible for membership, an applicant must be a public agency and be a member of ASBSD. There were 57 and 53 members of the Fund as of June 30, 2018 and 2017, respectively, which were primarily school districts in the state of South Dakota. The objective of the Fund is to formulate, develop, and administer on behalf of the member organizations, a program of health coverage through pooling risks, self-insurance and joint purchases of insurance. The three sub-funds are supervised by a seven member Associated School Boards Protective Trust Board of Trustees (Board of Trustees).

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

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

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

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

**Basis of Presentation**

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

**Estimates**

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

**Cash and Cash Equivalents**

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

**Receivables**

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

**Reinsurance**

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

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

**Income Taxes**

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

**Operating Revenues**

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

**Premium Deficiency**

A premium deficiency exists when the sum of expected claims costs (including an estimated liability for unreported claims) and all expected claims adjustment expenses, expected dividends, and policy acquisition costs exceed related unearned contributions. The Fund anticipates investment income in determining if a premium deficiency exists. As of June 30, 2018 and 2017, there was no premium deficiency reserve recorded.

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

The coverage offered by the Fund is on the occurrence basis. Occurrence basis coverage provides for payment of claims that occur during the period of coverage regardless of when the claim is reported. The Fund has a provision that pertains to terminating members in each of its member participation agreements, whereby the Fund will only provide coverage for all eligible claims received and paid by its claims administrator prior to the date of the termination of coverage. Management has determined that no reduction in the estimated liability for reported and unreported claims and claims adjustment expenses is required as of June 30, 2018 and 2017 for terminated members. The estimated liability for reported and unreported claims and claims adjustment expenses is based upon data developed by the Fund's administrator. Industry experience and statistics were used to develop the estimated liability. The claims history of the Fund was also considered. The liability includes estimates of the costs to settle individual claims which have been reported, plus a provision for claims and costs incurred but not yet reported. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Claims are reduced for subrogation when payment is received, as subrogation amounts are immaterial. There was no change in assumptions used in the current year to create the liability.

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management of the Fund believes the estimated liability for reported and unreported claims and claims adjustment expenses is sufficient to cover the ultimate net cost of incurred claims, but such reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated. An independent actuary assisted management with the establishment of estimated claims liabilities for the years ended June 30, 2018 and 2017.

**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, 2018 and 2017. Discretionary dividends are reported as an expense of the Fund in the year declared.

**Assessments**

Assessments represent amounts received from participating or terminated members in order to fund the member's share of the deficit. Assessments principal including interest totaling $68,560 and $11,693,842 were recognized during the years ended June 30, 2018 and 2017, respectively. The Board of Trustees approved an assessment interest forbearance during the year ended June 30, 2018 resulting in reduction of surplus of $267,255. Assessments receivable as of June 30, 2018 and 2017 were $4,502,017 and $10,589,717, respectively. Assessment interest receivable as of June 30, 2018 and 2017 was $1,665 and $93,680, respectively.

**Subsequent Events**

The Fund has evaluated subsequent events through February 7, 2019, the date which the financial statements were available to be issued.

## Note 2 - Deposits

The Fund's cash is comprised of deposit accounts, which have bank balances totaling $5,336,743 and $2,173,193 as of June 30, 2018 and 2017, 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. The Fund does not have a deposit policy for custodial credit risk. As of June 30, 2018 and 2017, deposits of $5,086,743 and $1,923,193, respectively, were exposed to custodial credit risk, as they were over the FDIC limit. A deposit pledge letter has been obtained ensuring the Fund's deposit accounts are secure in the event of a bank failure.

## Note 3 - Service Agreement

ASBSD, on behalf of the Fund, has an agreement effective July 1, 2017 with Wellmark Blue Cross & Blue Shield of South Dakota (BCBS) to provide health claims administration services for the Fund. The agreement provides that BCBS be paid a claim administration fee per employee per month (PEPM). Total fees incurred under the agreement were $1,219,608 and $1,166,418 for the years ended June 30, 2018 and 2017, respectively. These fees are claims adjustment expenses in the statement of revenue, expenses and changes in net position.

## Note 4 - Reinsurance

The Fund utilizes reinsurance agreements to limit maximum loss and minimize exposures on larger risk. During the year ended June 30, 2018 the Fund utilized one reinsurance agreement for health, whereby all members are covered under a reinsurance agreement with a $250,000 retention. Individual claims in excess of $250,000 for eligible claims expenses incurred from July 1, 2016 through June 30, 2018 and actually paid from July 1, 2017 through June 30, 2018 with a lifetime unlimited amount, were indemnified. During the year ended June 30, 2017, the Fund utilized one reinsurance agreement for health, whereby all members are covered under a reinsurance agreement with a $250,000 retention. Individual claims in excess of $250,000 for eligible claims expenses incurred from July 1, 2015 through June 30, 2017 and actually paid from July 1, 2016 through June 30, 2017 with a lifetime unlimited amount, were indemnified.

The Fund would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. During fiscal years ended June 30, 2018 and 2017, claims expenses was reduced by $1,282,974 and $1,113,957, respectively, of recoveries from the reinsurance companies under contract.

## Note 5 - Health Care Receivables

The Fund estimates pharmaceutical rebate receivables, taking into account projected prescription data provided to it by a pharmacy benefit manager and the actual number of prescriptions filled for the respective period. Estimated amounts are adjusted to take into account the Fund's actual collection experience relative to prior estimates provided by the pharmacy benefits manager. At June 30, 2018 and 2017, the Fund had recorded $428,895 and $601,111, respectively, of estimated pharmacy rebate receivables in the statements of net position.

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

The Fund establishes liabilities for both reported and unreported covered events, which includes estimates of both future payments of claims and related claims adjustment expenses. The following is a summary of the changes in those aggregate liabilities for the fiscal years ended June 30, 2018 and 2017.

| | 2018 | 2017 |
|---|---|---|
| Reported and unreported claims and claims adjustment expense liabilities at beginning of year | $ 2,600,000 | $ 3,326,356 |
| Incurred claims and claims adjustment expenses | | |
| Provision for insured events of the current year | 33,939,097 | 29,784,838 |
| Provision for insured events of prior years | (616,605) | (46,874) |
| Total incurred claims and claims adjustment expenses | 33,322,492 | 29,737,964 |
| Payments: | | |
| Claims and claims adjustment expenses attributable to insured events of the current year | 31,757,716 | 28,266,351 |
| Claims and claims adjustment expenses attributable to insured events of prior years | 1,414,776 | 1,965,003 |
| Total payments | 33,172,492 | 30,231,354 |
| Less reinsurance recoverable at beginning of year | - | (232,966) |
| Plus reinsurance recoverable at end of year | - | - |
| Reported and unreported claims and claims adjustment expense liabilities at end of year | $ 2,750,000 | $ 2,600,000 |

The 2018 and 2017 decrease in prior year provisions of incurred claims and claims adjustment expenses resulted from changes in loss development experience as more information became known and payments made.

## Note 7 - Related Party Transactions

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

**Administration agreement:** The Trust oversees three sub-funds known as the South Dakota School District Benefit Fund, ASB Property and Liability Fund, and ASB Workers' Compensation Fund (WC Fund). The Trust has an agreement with ASBSD in which ASBSD provides to the Trust, administrative oversight in the implementation and management of the Trust's activities including performing investment, promotion and accounting services for the Fund, among other activities. Under the agreement, ASBSD receives a fixed administrative fee of $700,000. Amounts incurred by the Fund under the agreement and passed through from the Trust to the Fund during the fiscal years ended June 30, 2018 and 2017, were $700,000. As of June 30, 2018 and 2017 $0, was due to ASBSD. The administrative agreement between ASBSD and the Fund was renewed for a period of three years beginning July 1, 2017. At the end of the three year period, the agreement will automatically renew for periods of one year unless either party to the agreement gives the other party written notice of intent to not renew the agreement.

**Advances:** The Bylaws provide that the separate identity and liability of all three sub-funds will be maintained at all times, and under no circumstances are the Board of Trustees authorized to commingle those separate sub-funds. To insure liquidity of each sub-fund, the Bylaws provide that the Board of Trustees may borrow or loan necessary funds from any source willing to lend, including sub-funds, upon such terms as the Board of Trustees may determine, as set forth in written notes, and the Chair and Secretary/Treasurer of the Board of Trustees are authorized to execute such notes, including lines of credit, on behalf of the Trust. The advance is subject to an oral agreement whereby interest is charged at a variable rate, 1.47% for July 1, 2013 through November 2013 and 1.63% for December 2013 through June 30, 2017, and monthly principal payments of $50,000, plus interest, will be made until at which time the advance is repaid. The advance was made to help the Fund with operating costs. As of June 30, 2018 and 2017, $0 and $7,200,000 respectively of the advance remains outstanding. As of September 11, 2017, the $7,200,000 due to the Workers' Compensation Fund has been repaid.

## 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, 2018 and 2017

# South Dakota School District Benefit Fund

# South Dakota School District Benefit Fund
## Ten-Year Schedule of Claims Development
## For the Ten Years Ended June 30, 2018

| | 2009 | 2010 | 2011 | 2011 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net earned member contributions | | | | | | | | | | |
| Earned | $ 30,781,953 | $ 31,540,961 | $ 32,107,261 | $ 32,104,730 | $ 32,084,684 | $ 35,734,453 | $ 34,887,812 | $ 35,118,137 | $ 37,894,362 | $ 39,840,539 |
| Ceded | (1,397,446) | (1,552,782) | (1,811,449) | (1,914,688) | (1,642,804) | (2,021,090) | (1,709,442) | (2,736,533) | (1,924,561) | (2,068,348) |
| Net earned | 29,384,507 | 29,988,179 | 30,295,812 | 30,190,042 | 30,441,880 | 33,713,363 | 33,178,370 | 32,381,604 | 35,969,801 | 37,772,191 |
| Unallocated expenses | 582,796 | 1,012,357 | 1,001,995 | 993,517 | 1,033,116 | 1,034,340 | 1,628,062 | 1,317,973 | 1,217,675 | 1,200,700 |
| Estimated claims and expenses, end of policy year | | | | | | | | | | |
| Incurred | 28,871,187 | 30,243,666 | 32,734,377 | 32,673,510 | 31,798,010 | 37,908,372 | 37,780,455 | 31,964,407 | 30,851,921 | 34,605,466 |
| Ceded | 656,762 | 832,273 | 2,524,744 | 2,063,425 | 1,387,643 | 2,681,707 | 4,019,603 | 2,161,610 | 1,113,957 | 1,282,974 |
| Net incurred | 28,214,425 | 29,411,393 | 30,209,633 | 30,610,085 | 30,410,367 | 35,226,665 | 33,760,852 | 29,802,797 | 29,737,964 | 33,322,492 |
| Net paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 24,175,362 | 25,477,551 | 26,479,396 | 27,824,106 | 27,341,923 | 29,252,542 | 31,388,461 | 27,169,329 | 28,266,351 | 31,757,716 |
| One year later | 28,031,957 | 30,437,372 | 29,201,536 | 30,261,282 | 31,225,452 | 35,038,534 | 32,797,633 | 29,134,332 | 29,681,127 | |
| Two years later | 28,031,957 | 30,437,372 | 29,201,536 | 30,137,625 | 31,225,452 | 35,038,534 | 32,797,633 | 29,134,332 | | |
| Three years later | 28,031,957 | 30,437,372 | 29,201,536 | 30,137,625 | 31,225,452 | 35,038,534 | 32,797,633 | | | |
| Four years later | 28,031,957 | 30,437,372 | 29,201,536 | 30,137,625 | 31,225,452 | 35,038,534 | | | | |
| Five years later | 28,031,957 | 30,437,372 | 29,201,536 | 30,137,625 | 31,225,452 | | | | | |
| Six years later | 28,031,957 | 30,437,372 | 29,201,536 | 30,137,625 | | | | | | |
| Seven years later | 28,031,957 | 30,437,372 | 29,201,536 | | | | | | | |
| Eight years later | 28,031,957 | 30,437,372 | | | | | | | | |
| Nine years later | 28,031,957 | | | | | | | | | |
| Reestimated ceded claims and expenses | 1,160,957 | 832,273 | 2,524,744 | 2,063,425 | 1,387,643 | 2,681,707 | 4,019,603 | 2,161,610 | 1,113,957 | 1,282,974 |
| Reestimated net incurred claims and expenses: | | | | | | | | | | |
| End of policy year | 28,031,957 | 29,411,393 | 30,209,633 | 30,610,085 | 30,410,367 | 32,809,227 | 33,760,852 | 30,110,984 | 29,784,838 | 33,939,097 |
| One year later | 28,031,957 | 30,437,373 | 29,201,536 | 30,261,282 | 32,827,805 | 33,141,028 | 33,452,665 | 30,064,110 | 29,168,233 | |
| Two years later | 28,031,957 | 30,437,373 | 29,201,536 | 30,137,625 | 32,827,805 | 33,141,028 | 33,452,665 | 30,064,110 | | |
| Three years later | 28,031,957 | 30,437,373 | 29,201,536 | 30,137,625 | 32,827,805 | 33,141,028 | 33,452,665 | | | |
| Four years later | 28,031,957 | 30,437,373 | 29,201,536 | 30,137,625 | 32,827,805 | 33,141,028 | | | | |
| Five years later | 28,031,957 | 30,437,373 | 29,201,536 | 30,137,625 | 32,827,805 | | | | | |
| Six years later | 28,031,957 | 30,437,373 | 29,201,536 | 30,137,625 | | | | | | |
| Seven years later | 28,031,957 | 30,437,373 | 29,201,536 | | | | | | | |
| Eight years later | 28,031,957 | 30,437,373 | | | | | | | | |
| Nine years later | 28,031,957 | | | | | | | | | |
| Increase (decrease) in estimated net incurred claims and expenses from end of policy year | (182,468) | 1,025,980 | (1,008,097) | (472,460) | 2,417,438 | 331,801 | (308,187) | (46,874) | (616,605) | - |

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**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota School District Benefit Fund (Fund) as of and for the year ended June 30, 2018, 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 7, 2019.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. See 2018-A and 2018-B in the schedule of findings and responses.



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***Compliance and Other Matters***

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

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

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

**Purpose of this Report**

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

Eide Bailly LLP

Fargo, North Dakota
February 7, 2019

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## Schedule of Findings and Responses

**Finding 2018- A**

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

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

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

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

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

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

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



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**Finding 2018- B**

**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* – This circumstance is not unusual in a Fund of your size. 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.