



Financial Statements
June 30, 2018 and 2017

ASB Workers' Compensation Fund

ASB Workers' Compensation Fund

Table of Contents

June 30, 2018 and 2017

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report		1
Financial Statements		
Statements of Net Position		3
Statements of Revenues, Expenses and Changes in Net Position		4
Statements of Cash Flows		5
Notes to the Financial Statements		6
Required Supplemental Information		
Ten-Year Schedule of Claims Development Information - Unaudited		16
Exhibits		
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 <i>Government Auditing Standards</i>	A-1	17
Schedule of Finding and Response	B-1	19



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of ASB Workers' Compensation 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.

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 16 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 solely 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 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.



Fargo, North Dakota
February 7, 2019

(This page left blank intentionally.)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,459,306	\$ 4,145,093
Receivables		
Member contributions	48,853	129,417
Current portion of annuities receivable	10,924	10,924
Reinsurance recoverable on paid losses	48,623	64,683
Advance to South Dakota School District Benefit Fund	-	600,000
Accounts receivable	5,834	-
Related party receivable	21,791	-
Certificates of deposit - participating	1,091,867	-
Certificates of deposit - nonparticipating	706,511	1,303,190
Total current assets	<u>4,393,709</u>	<u>6,253,307</u>
Noncurrent Assets		
Advance to South Dakota School District Benefit Fund, less current position	-	6,600,000
Annuities receivable, less current position	31,587	42,510
Certificates of deposit - participating	4,371,287	-
Certificates of deposit - nonparticipating	5,383,427	1,953,711
Investments in mutual funds	1,212,942	-
Investments in debt securities	356,813	382,182
Total noncurrent assets	<u>11,356,056</u>	<u>8,978,403</u>
Total assets	<u>\$ 15,749,765</u>	<u>\$ 15,231,710</u>

See Notes to Financial Statements

ASB Workers' Compensation Fund
 Statements of Net Position
 June 30, 2018 and 2017

	2018	2017
Liabilities and Net Position		
Current Liabilities		
Current portion of estimated liability for reported and unreported claims and claims adjustment expenses	\$ 1,000,498	\$ 1,013,798
Advance member contributions	395,954	287,831
Member contributions refundable	116,563	88,702
Accounts payable	-	4,421
Total current liabilities	1,513,015	1,394,752
Long-term Liabilities		
Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses, less current portion	1,482,649	1,231,108
Total liabilities	2,995,664	2,625,860
Net Position		
Unrestricted	12,754,101	12,605,850
Total liabilities and net position	\$ 15,749,765	\$ 15,231,710

ASB Workers' Compensation Fund
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Member contributions earned	\$ 2,358,861	\$ 2,581,847
Less: Reinsurance premiums	(149,717)	(137,290)
Net operating revenues	2,209,144	2,444,557
Operating expenses		
Claims and claim adjustment expenses incurred	1,736,599	1,097,334
Underwriting gain	472,545	1,347,223
General and administrative expenses		
Administrative and service fees	349,402	259,946
Other	43,382	39,440
Total general and administrative expenses	392,784	299,386
Operating Income	79,761	1,047,837
Nonoperating revenues		
Net investment income	68,490	147,575
Change in net position	148,251	1,195,412
Net Position		
Beginning of year	12,605,850	11,410,438
End of year	\$ 12,754,101	\$ 12,605,850

ASB Workers' Compensation Fund
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Contributions received	\$ 2,547,784	\$ 2,268,034
Reinsurance premiums paid	(149,717)	(137,290)
Underwriting and expenses of operations paid	(381,861)	(288,462)
Claims and claims adjustment expenses paid	(1,482,298)	(1,340,648)
Net Cash from Operating Activities	533,908	501,634
Investing Activities		
Certificates of deposit		
Purchases	(11,171,967)	(1,146,000)
Maturities and redemptions	1,545,900	848,980
Net investment income received	206,372	242,629
Net Cash used for Investing activities	(9,419,695)	(54,391)
Non-Capital Financing Activities		
Net receipts on South Dakota School District Benefit Fund Advance	7,200,000	1,397,373
Net Cash from Non-Capital Financing Activities	7,200,000	1,397,373
Net Change in Cash and Cash Equivalents	(1,685,787)	1,844,616
Cash and Cash Equivalents at Beginning of Year	4,145,093	2,300,477
Cash and Cash Equivalents at End of Year	\$ 2,459,306	\$ 4,145,093
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating income	\$ 79,761	\$ 1,047,837
(Increase) decrease in assets:		
Member contributions receivable	80,564	(49,670)
Annuities receivable	10,923	10,924
Reinsurance recoverable on paid losses	16,060	68,304
Accounts receivable	(5,834)	11,194
Related party receivable	(21,791)	-
Increase (decrease) in liabilities:		
Estimated liability for reported and unreported claims and claims adjustment expenses	238,241	(311,618)
Advance member contributions	108,123	(172,357)
Member contributions refundable	27,861	(102,980)
Net cash from operating activities	\$ 533,908	\$ 501,634
Supplemental Disclosures of Cash Flow Information		
Financing activities		
Net decrease in the fair value of investments	\$ (25,369)	\$ (30,786)

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 82 and 83 members of the Fund as of June 30, 2018 and 2017, 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.

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.

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.

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.

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 immaterial. The liability is calculated using a 90% confidence interval and at present value using a 2.0% discount factor as of June 30, 2018 and 2017.

Premium Deficiency Reserve

To the extent that premiums 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 premium deficiency. The Fund anticipates investment income in determining if a premium deficiency exists. For the years ended June 30, 2018 and 2017, there was no premium 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 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.

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 \$2,067,520 and \$3,035,865 as of June 30, 2018 and 2017, 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, 2018 and 2017, deposits of \$1,567,520 and \$2,709,732, 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. 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, 2018 and 2017, investments of \$13,561,229 and \$4,080,407 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, 2018, the Fund had the following fixed income securities and maturities:

Investment Type	Fair Value/ Carrying Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. treasury issues	\$ 356,813	\$ -	\$ -	\$ 356,813	\$ -
Certificates of deposit - participating	5,463,154	1,091,867	4,371,287	-	-
	<u>\$ 5,819,967</u>	<u>\$ 1,091,867</u>	<u>\$ 4,371,287</u>	<u>\$ 356,813</u>	<u>\$ -</u>
	Cost	Less Than 1	1 - 5	6 - 10	More Than 10
Certificates of deposit - nonparticipating	\$ 6,089,938	\$ 706,511	\$ 5,383,427	\$ -	\$ -

As of June 30, 2017, the Fund had the following fixed income securities and maturities:

Investment Type	Fair Value/ Carrying Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. treasury issues	\$ 382,182	\$ -	\$ -	\$ 382,182	\$ -
	Cost	Less Than 1	1 - 5	6 - 10	More Than 10
Certificates of deposit - nonparticipating	\$ 3,256,901	\$ 1,303,190	\$ 1,953,711	\$ -	\$ -

The net change in the fair value of investments during the years ended June 30, 2018 and 2017 was \$139,495 and \$34,485, respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year.

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, 2018 and 2017 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%

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, 2018 and 2017

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.

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
June 30, 2018				
Mutual Funds	\$ 1,212,942	\$ 1,212,942	\$ -	\$ -
U.S. Treasury issues	356,813	-	356,813	-
Certificates of deposit - participating	5,463,154	-	5,463,154	-
Total assets	<u>\$ 5,819,967</u>	<u>\$ -</u>	<u>\$ 5,819,967</u>	<u>\$ -</u>
	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
June 30, 2017				
U.S. Treasury issues	<u>\$ 382,182</u>	<u>\$ -</u>	<u>\$ 382,182</u>	<u>\$ -</u>
Total assets	<u>\$ 382,182</u>	<u>\$ -</u>	<u>\$ 382,182</u>	<u>\$ -</u>

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, 2018 and 2017 were \$394,663 and \$330,010, 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, 2018 and 2017 were \$30,107 and \$8,748, 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, 2018 and 2017, the reinsurance agreement provided that individual claims in excess of \$600,000 to a reinsurer employers' liability limit of \$2,000,000 during 2018 and 2017, were indemnified. Meanwhile, during 2018 and 2017 the 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 \$686,268 and \$930,846 was deducted from the estimated liability for reported and unreported claims and claim adjustment expenses as of June 30, 2018 and 2017, respectively. During the fiscal years ended June 30, 2018 and 2017, claims expense was net of \$192,837 and \$64,683, 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, 2018 and 2017.

	2018	2017
Reported and unreported claims and claims adjustment expense liabilities at beginning of year	\$ 2,244,906	\$ 2,556,524
Incurred claims and claims adjustment expenses		
Provision for insured events of the current year	1,683,255	1,646,592
Provision for insured events of prior years	53,344	(549,258)
Total incurred claims and claims adjustment expenses	1,736,599	1,097,334
Payments		
Claims and claims adjustment expenses attributable to insured events of the current year	823,184	818,978
Claims and claims adjustment expenses attributable to insured events of prior years	659,114	521,670
Total payments	1,482,298	1,340,648
Less reinsurance recoverable at beginning of year	(64,683)	(132,987)
Plus reinsurance recoverable at end of year	48,623	64,683
Reported and unreported claims and claims adjustment expense liabilities at end of year	\$ 2,483,147	\$ 2,244,906

The 2018 increase and 2017 decrease in prior year provisions of incurred claims and claims adjustment expenses resulted from adverse and positive loss development experience, respectively, 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 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, 2018 and 2017 were \$238,085 and \$259,443, respectively. The agreement was renewed on July 1, 2017 and will expire on June 30, 2020.

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.

During the years ended June 30, 2018 and 2017 the Fund provided no advances to the Benefit Fund. As of June 30, 2018 and 2017, respectively, \$0 and \$7,200,000 of the advance remains outstanding from the \$7,800,000 advance provided during the year ended June 30, 2016. The advances are subject to an oral agreement whereby interest is earned at a rate of 1.63% for July 1, 2014 through September 11, 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 Benefit Fund pay operating costs. The \$7,200,000 advance receivable was repaid in full as of September 11, 2017.

As of June 30, 2018 and 2017, respectively, \$12,940 and \$132,731 was recorded as interest income related to the advances.

As of June 30, 2018, the Fund is owed from a related party \$21,791 for shared expenses.

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.

Note 9 - Subsequent Events

The board of Trustees approved a contribution relief plan that will reduce the participating member's contribution payments for fiscal year 2019 premiums by \$600,000 with the amounts varying by member. The contribution relief plan will occur over five years with the annual amount of relief contingent on board approval.

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



Required Supplementary Information
June 30, 2018 and 2017

ASB Workers' Compensation Fund

ASB Workers' Compensation Fund
Ten-Year Schedule of Claims Development Information – Unaudited
Years Ended June 30, 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net earned member contributions and investment income:										
Earned	\$ 2,927,775	\$ 3,009,388	\$ 2,021,809	\$ 2,297,761	\$ 2,303,254	\$ 2,376,135	\$ 2,398,609	\$ 2,626,067	\$ 2,729,422	\$ 2,427,351
Ceded	(104,020)	(118,212)	(89,947)	(97,177)	(108,802)	(110,774)	(113,207)	(116,916)	(137,290)	(149,717)
Net earned	<u>2,823,755</u>	<u>2,891,176</u>	<u>1,931,862</u>	<u>2,200,584</u>	<u>2,194,452</u>	<u>2,265,361</u>	<u>2,285,402</u>	<u>2,509,151</u>	<u>2,592,132</u>	<u>2,277,634</u>
Unallocated Expenses	475,631	362,177	304,210	2,304,624	313,109	335,667	279,813	286,211	299,386	392,784
Estimated claims and expenses, end of policy year:										
Incurred	3,153,597	3,436,171	2,384,077	2,051,332	1,827,207	1,783,391	1,424,373	1,408,987	1,711,275	1,731,878
Ceded	109,359	41,573	79,094	151,723	64,271	49,391	181,373	132,987	64,683	48,623
Net incurred	<u>3,044,238</u>	<u>3,394,598</u>	<u>2,304,983</u>	<u>1,899,609</u>	<u>1,762,936</u>	<u>1,734,000</u>	<u>1,243,000</u>	<u>1,276,000</u>	<u>1,646,592</u>	<u>1,683,255</u>
Net paid (cumulative) as of:										
End of policy year	811,378	769,517	707,037	703,565	717,651	559,203	394,733	426,336	544,141	1,184,349
One year later	1,119,054	1,244,095	825,144	1,030,276	788,577	1,297,391	727,795	847,768	1,231,287	
Two years later	1,238,107	1,397,644	878,293	834,409	898,847	1,389,964	763,256	1,107,637		
Three years later	1,271,422	1,451,718	875,863	839,645	927,239	1,443,408	859,610			
Four years later	1,285,329	1,476,709	876,011	840,607	901,614	1,709,919				
Five years later	1,288,895	1,474,380	876,682	845,636	959,113					
Six years later	1,292,937	1,474,581	883,071	892,426						
Seven years later	1,293,720	1,467,368	925,454							
Eight years later	1,303,238	1,530,144								
Nine years later	1,352,231									
Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-
Reestimated net incurred claims and expenses:										
End of policy year	3,044,238	3,394,598	2,304,983	1,899,609	1,762,936	1,734,000	1,243,000	1,276,000	1,441,000	1,347,000
One year later	1,890,748	2,215,999	1,361,707	1,455,559	1,277,000	1,770,000	1,027,000	1,187,000	1,352,000	
Two years later	1,610,999	1,909,000	1,022,798	1,019,000	1,129,000	1,699,000	835,000	1,092,000		
Three years later	1,389,000	1,735,147	875,863	925,000	990,000	1,667,000	834,000			
Four years later	1,369,000	1,554,000	901,000	891,000	901,614	1,861,000				
Five years later	1,398,000	1,505,000	876,682	845,636	907,000					
Six years later	1,380,000	1,474,581	883,071	845,636						
Seven years later	1,323,000	1,467,368	883,071							
Eight years later	1,303,238	1,467,368								
Nine years later	1,303,238									
Decrease in estimated net incurred claims and expenses from end of policy year.	(1,741,000)	(1,927,230)	(1,421,912)	(1,053,973)	(855,936)	127,000	(409,000)	(184,000)	(89,000)	-

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, the financial statements of ASB Workers' Compensation 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.

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*.

ASB Worker's Compensation 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.

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

Fargo, North Dakota
February 7, 2019

Schedule of Findings and Responses

Finding 2018- 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 – 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.

Finding 2018- 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 – 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.