



Financial Statements  
June 30, 2020 and 2019

# ASB Workers' Compensation Fund

ASB Workers' Compensation Fund

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June 30, 2020 and 2019

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## Independent Auditor's Report

To 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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 1, 2021 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 1, 2021

# ASB Workers' Compensation Fund

Statements of Net Position

June 30, 2020 and 2019

	2020	2019
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 692,678	\$ 1,282,479
Receivables		
Member contributions	47,028	49,763
Current portion of annuities receivable	10,924	10,924
Reinsurance recoverable on paid losses	45,939	49,828
Accounts receivable	-	21,791
Related party receivable	31,791	10,000
Certificates of deposit - participating	1,256,214	1,491,172
Certificates of deposit - nonparticipating	1,494,000	747,000
	<u>3,578,574</u>	<u>3,662,957</u>
<b>Noncurrent Assets</b>		
Annuities receivable, less current position	9,740	20,663
Certificates of deposit - participating	3,919,864	5,011,868
Certificates of deposit - nonparticipating	6,472,000	5,476,000
Investment in external pool	416,561	211,464
Investments in mutual funds	1,287,989	1,379,766
Investments in debt securities	354,516	356,250
	<u>12,460,670</u>	<u>12,456,011</u>
	<u>\$ 16,039,244</u>	<u>\$ 16,118,968</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current portion of estimated liability for reported and unreported claims and claims adjustment expenses	\$ 1,099,385	\$ 1,111,417
Advance member contributions	338,144	435,617
Member contributions refundable	137,532	138,902
	<u>1,575,061</u>	<u>1,685,936</u>
<b>Long-term Liabilities</b>		
Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses, less current portion	1,577,142	1,485,534
	<u>3,152,203</u>	<u>3,171,470</u>
<b>Net Position</b>		
Unrestricted	12,887,041	12,947,498
	<u>12,887,041</u>	<u>12,947,498</u>
	<u>\$ 16,039,244</u>	<u>\$ 16,118,968</u>

ASB Workers' Compensation Fund  
 Statements of Revenues, Expenses and Changes in Net Position  
 Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenues		
Member contributions earned	\$ 2,078,281	\$ 1,952,770
Less: Reinsurance contributions	<u>(255,776)</u>	<u>(228,704)</u>
Net operating revenues	<u>1,822,505</u>	<u>1,724,066</u>
Operating expenses		
Claims and claim adjustment expenses incurred	<u>2,080,668</u>	<u>1,759,500</u>
Underwriting (loss)	<u>(258,163)</u>	<u>(35,434)</u>
General and administrative expenses		
Administrative and service fees	217,151	209,103
Other	<u>29,855</u>	<u>38,457</u>
Total general and administrative expenses	<u>247,006</u>	<u>247,560</u>
Operating (loss)	<u>(505,169)</u>	<u>(282,994)</u>
Nonoperating revenues		
Net investment income	<u>444,712</u>	<u>476,391</u>
Change in net position	(60,457)	193,397
Net Position		
Beginning of year	<u>12,947,498</u>	<u>12,754,101</u>
End of year	<u>\$ 12,887,041</u>	<u>\$ 12,947,498</u>

## ASB Workers' Compensation Fund

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Contributions received	\$ 1,982,173	\$ 2,009,696
Reinsurance premiums paid	(255,776)	(228,704)
Underwriting and expenses of operations paid	(236,083)	(236,636)
Claims and claims adjustment expenses paid	<u>(1,997,203)</u>	<u>(1,646,901)</u>
Net Cash (used for) Operating Activities	<u>(506,889)</u>	<u>(102,545)</u>
Investing Activities		
Certificates of deposit		
Purchases	(2,988,000)	(4,515,000)
Maturities and redemptions	2,375,000	3,296,675
Purchase of external investment pool	(205,097)	(211,464)
Net investment income received	<u>735,185</u>	<u>355,507</u>
Net Cash used for Investing activities	<u>(82,912)</u>	<u>(1,074,282)</u>
Net Change in Cash and Cash Equivalents	(589,801)	(1,176,827)
Cash and Cash Equivalents at Beginning of Year	<u>1,282,479</u>	<u>2,459,306</u>
Cash and Cash Equivalents at End of Year	<u>\$ 692,678</u>	<u>\$ 1,282,479</u>
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating Loss	\$ (505,169)	\$ (282,994)
(Increase) decrease in assets:		
Member contributions receivable	2,735	(910)
Annuities receivable	10,923	10,924
Reinsurance recoverable on paid losses	3,889	(1,205)
Accounts receivable	21,791	(15,957)
Related party receivable	(21,791)	11,791
Increase (decrease) in liabilities:		
Estimated liability for reported and unreported claims and claims adjustment expenses	79,576	113,804
Advance member contributions	(97,473)	39,663
Member contributions refundable	<u>(1,370)</u>	<u>22,339</u>
Net cash (used for) operating activities	<u>\$ (506,889)</u>	<u>\$ (102,545)</u>
Supplemental Disclosures of Non-Cash Flow Information		
Financing activities		
Net decrease in the fair value of investments	<u>\$ (1,734)</u>	<u>\$ (563)</u>

**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, 2020 and 2019, 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.

### **Investments in External Pool**

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

### **Income Taxes**

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

### **Operating Revenues**

Members are billed annually in advance for a deposit contribution. After the end of the policy year, members are billed or (refunded) any additional (excess) contributions as a result of payroll audits. Income from such contributions is recorded as earned during the coverage period. Contributions received in advance for coverage in the following policy year are recorded as advance member contributions. Revenue is reduced by reinsurance premiums ceded to reinsurance companies and by contribution relief. The contribution relief plan will reduce the participating member's contribution and will occur over from 2019 through 2024 with the annual amount of relief contingent on board approval.

### **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, 2020 and 2019.

### **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, 2020 and 2019, 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, 2020 and 2019. Discretionary dividends are reported as an expense of the Fund in the year declared.

### **Effect of Pandemic**

Early in 2020, the outbreak of COVID-19 emerged as a public health emergency that swept the world and devastated the global economy. In attempts to slow the spread of COVID-19, many measures were implemented, including quarantines, as well as travel, border, and large gathering restrictions. These measures reduced consumer activity, decreased demand for a wide range of products and services, disrupted manufacturing operations and supply chains, and caused severe market uncertainty and volatility. At this time, the financial impacts to the fund are not yet known.

### **Subsequent Events**

The Fund has evaluated subsequent events through February 1, 2021, the date which the financial statements were available to be issued.

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

### **Authorized Investments**

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

### **Custodial Credit Risk**

The Fund's deposits are comprised of deposit, money market funds, savings accounts and demand accounts, which have bank balances totaling \$171,764 and \$353,554 as of June 30, 2020 and 2019, 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, 2020 and 2019, deposits of \$0 and \$103,554, 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, 2020 and 2019, investments of \$15,361,348 and \$15,524,896 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, 2020, 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	\$ 354,516	\$ -	\$ -	\$ 354,516	\$ -
Certificates of deposit - participating	5,176,078	1,256,214	3,919,864	-	-
	<u>\$ 5,530,594</u>	<u>\$ 1,256,214</u>	<u>\$ 3,919,864</u>	<u>\$ 354,516</u>	<u>\$ -</u>
	Cost	Less Than 1	1 - 5	6 - 10	More Than 10
Certificates of deposit - nonparticipating	\$ 7,966,000	\$ 1,494,000	\$ 6,472,000	\$ -	\$ -

As of June 30, 2019, 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	\$ 356,250	\$ -	\$ -	\$ 356,250	\$ -
Certificates of deposit - participating	6,503,040	1,491,172	5,011,868	-	-
	<u>\$ 6,859,290</u>	<u>\$ 1,491,172</u>	<u>\$ 5,011,868</u>	<u>\$ 356,250</u>	<u>\$ -</u>
	Cost	Less Than 1	1 - 5	6 - 10	More Than 10
Certificates of deposit - nonparticipating	\$ 6,223,000	\$ 747,000	\$ 5,476,000	\$ -	\$ -

The net change in the fair value of investments during the years ended June 30, 2020 and 2019 was \$(69,526) and \$(120,884), 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, 2020 and 2019 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:

	<u>Minimum</u>	<u>Maximum</u>
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, 2020 and 2019

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)
<b>June 30, 2020</b>				
Mutual Funds	\$ 1,287,989	\$ 1,287,989	\$ -	\$ -
Investments in				
External pool	416,561	-	416,561	-
U.S. Treasury issues	354,516	-	354,516	-
Certificates of deposit				
- participating	5,176,078	-	5,176,078	-
Total assets	\$ 7,235,144	\$ 1,287,989	\$ 5,947,155	\$ -
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>June 30, 2019</b>				
Mutual Funds	\$ 1,379,766	\$ 1,379,766	\$ -	\$ -
Investments in				
External pool	211,464	-	211,464	-
U.S. Treasury issues	356,250	-	356,250	-
Certificates of deposit				
- participating	6,503,040	-	6,503,040	-
Total assets	\$ 8,450,520	\$ 1,379,766	\$ 7,070,754	\$ -

#### **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, 2020 and 2019 were \$410,701 and \$419,145, 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, 2020 and 2019 were \$35,423 and \$34,029, 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, 2020 and 2019, the reinsurance agreement provided that individual claims in excess of \$600,000 to a reinsurer employers' liability limit of \$2,000,000 during 2020 and 2019, were indemnified. Meanwhile, during 2020 and 2019 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 \$714,690 and \$580,475 was deducted from the estimated liability for reported and unreported claims and claim adjustment expenses as of June 30, 2020 and 2019, respectively. During the fiscal years ended June 30, 2020 and 2019, claims expense was net of 45,939 and 49,828 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, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Reported and unreported claims and claims adjustment expense liabilities at beginning of year	<u>\$ 2,596,951</u>	<u>\$ 2,483,147</u>
Incurred claims and claims adjustment expenses		
Provision for insured events of the current year	2,142,908	1,920,199
Provision for insured events of prior years	<u>(62,240)</u>	<u>(160,699)</u>
Total incurred claims and claims adjustment expenses	<u>2,080,668</u>	<u>1,759,500</u>
Payments		
Claims and claims adjustment expenses attributable to insured events of the current year	1,197,609	929,849
Claims and claims adjustment expenses attributable to insured events of prior years	<u>799,594</u>	<u>717,052</u>
Total payments	<u>1,997,203</u>	<u>1,646,901</u>
Less reinsurance recoverable at beginning of year	(49,828)	(48,623)
Plus reinsurance recoverable at end of year	<u>45,939</u>	<u>49,828</u>
Reported and unreported claims and claims adjustment expense liabilities at end of year	<u>\$ 2,676,527</u>	<u>\$ 2,596,951</u>



The 2020 and 2019 increase in prior year provisions of incurred claims and claims adjustment expenses resulted from positive and adverse 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.

As of June 30, 2020 and 2019, respectively, the Fund is owed from a related party \$31,791 and \$10,000 for shared expenses.

#### **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, 2020 and 2019 were \$216,766 and \$205,603, respectively. The agreement was effective on July 1, 2017 for one year and automatically renews for annually for the period July 1 through June 30 unless either party gives written notice of intent not to renew at least twelve months prior to the termination date. No notice of intent was given by either party during 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. As of June 30, 2020 and 2019, there were no advances with other funds.

#### **Note 8 - Contingencies**

The Fund is a party to various legal actions and is subject to various claims arising in the ordinary course of business. Management believes that the disposition of these matters will not have a material adverse effect on the Fund's financial position or results of operations.



Required Supplementary Information  
June 30, 2020 and 2019

## ASB Workers' Compensation Fund

**ASB Workers' Compensation Fund**  
**Ten-Year Schedule of Claims Development Information – Unaudited**  
**Years Ended June 30, 2020**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net earned member contributions and investment income										
Earned	\$ 2,021,809	\$ 2,297,761	\$ 2,303,254	\$ 2,376,135	\$ 2,398,609	\$ 2,626,067	\$ 2,729,422	\$ 2,427,351	\$ 3,029,161	\$ 2,522,993
Ceded	(89,947)	(97,177)	(108,802)	(110,774)	(113,207)	(116,916)	(137,290)	(149,717)	(228,704)	(255,776)
Net earned	1,931,862	2,200,584	2,194,452	2,265,361	2,285,402	2,509,151	2,592,132	2,277,634	2,800,457	2,267,217
Unallocated Expenses	304,210	2,304,624	313,109	335,667	279,813	286,211	299,386	392,784	247,560	247,006
Estimated claims and expenses, end of policy year										
Incurred	2,384,077	2,051,332	1,827,207	1,783,391	1,424,373	1,408,987	1,711,275	1,731,878	1,970,027	2,188,847
Ceded	(79,094)	(151,723)	(64,271)	(49,391)	(181,373)	(132,987)	(64,683)	(48,623)	(49,828)	(45,939)
Net incurred	2,304,983	1,899,609	1,762,936	1,734,000	1,243,000	1,276,000	1,646,592	1,683,255	1,920,199	2,142,908
Net paid (cumulative) as of										
End of policy year	707,037	703,565	717,651	559,203	394,733	426,336	544,141	1,184,349	1,257,615	2,015,595
One year later	825,144	1,030,276	788,577	1,297,391	727,795	847,768	1,231,287	1,225,588	1,362,694	
Two years later	878,293	834,409	898,847	1,389,964	763,256	1,107,637	1,206,606	1,230,449		
Three years later	875,863	839,645	927,239	1,443,408	859,610	1,050,803	1,219,790			
Four years later	876,011	840,607	901,614	1,709,919	839,675	1,027,066				
Five years later	876,682	845,636	959,113	1,688,146	827,227					
Six years later	883,071	892,426	949,611	1,668,281						
Seven years later	925,454	884,641	940,190							
Eight years later	919,872	876,736								
Nine years later	911,652									
Reestimated ceded claims and expenses *	-	-	-	-	-	-	-	-	-	-
Reestimated net incurred claims and expenses										
End of policy year	2,304,983	1,899,609	1,762,936	1,734,000	1,243,000	1,276,000	1,646,592	1,683,255	1,920,199	2,142,908
One year later	1,361,707	1,455,559	1,277,000	1,770,000	1,027,000	1,187,000	1,352,000	1,303,000	1,407,000	
Two years later	1,022,798	1,019,000	1,129,000	1,699,000	835,000	1,092,000	1,345,000	1,205,000		
Three years later	875,863	925,000	990,000	1,667,000	834,000	967,408	1,456,000			
Four years later	901,000	891,000	901,614	1,861,000	794,000	967,408				
Five years later	876,682	845,636	907,000	1,856,000	784,631					
Six years later	883,071	845,636	904,000	1,837,000						
Seven years later	883,071	844,968	901,614							
Eight years later	883,011	844,968								
Nine years later	883,011									
Decrease in estimated net incurred claims and expenses from end of policy year.	(1,421,972)	(1,054,641)	(861,322)	103,000	(458,369)	(308,592)	(190,592)	(478,255)	(513,199)	-

\* Financial information is not available for the respective period

**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, 2020, 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, 2021.

**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 material weaknesses and 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 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. We consider the deficiency described in the accompanying schedule of findings and responses item 2020-A to be material weakness.

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 2020-B and 2020-C 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 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.



Fargo, North Dakota

February 1, 2021

## Schedule of Findings and Responses

### Finding 2020- A

#### Material Weakness in Internal Control over Financial Reporting – Audit Adjustments

*Condition* – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

*Criteria* – During the course of our engagement, we proposed audit adjustments to the Fund’s recorded account balances in the areas of reinsurance, receivables, claim expenses and claim liabilities, which if not recorded, could have resulted in a material misstatement of the Fund’s financial statements. The need for these adjustments indicates that the Funds interim financial information may not be materially correct, which may affect managements decisions made during the course of the year.

*Effect* – This deficiency resulted in misstatements to the financial statements that was not prevented or detected.

*Cause* – The Fund does not have an internal control system designed to identify all necessary adjustments.

*Recommendation* – A thorough review and reconciliation of general ledger accounts should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

*View of Responsible Officials and Planned Corrective Actions* – Management of the Fund concurs and will review the recommendation above to ensure the appropriate journal entries are made on a monthly basis as needed. The CFO will work with staff to make the appropriate adjustments to ensure the financials remain materially correct and up-to-date. The CFO will also communicate throughout the year with the auditor to confirm the completed adjustments appear appropriate.

## Schedule of Findings and Responses

### Finding 2019- 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.

## Schedule of Findings and Responses

### Finding 2019- C

#### 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.