



Financial Statements
June 30, 2021

Northern Plains Insurance Pool

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Independent Auditor's Report

The Executive Member Board
Northern Plains Insurance Pool
Sioux Falls, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Plains Insurance Pool (the Pool), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 Pool, as of June 30, 2021, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the ten-year schedule of claims development information as shown in the table of contents, 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting 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 3, 2022, on our consideration of the Pool'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 Pool'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 Pool's internal control over financial reporting and compliance.

The signature is written in a cursive, handwritten style. It reads "Eide Bailly LLP".

Fargo, North Dakota
February 3, 2022

Northern Plains Insurance Pool

Statement of Net Position

June 30, 2021

Assets

Current Assets

Cash and cash equivalents	\$ 3,046,672
Investments	6,234,832
Member contribution receivables	63,273
Reinsurance receivables	2,476,824
Prepaid expenses	22,315

Total current assets	11,843,916
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Non-Current Assets

Restricted investment	1,896,075
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Total assets	\$ 13,739,991
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Liabilities and Net Position

Current Liabilities

Estimated liability for reported and unreported claims and claims adjustment expenses	\$ 2,535,000
Advance member contributions	2,038,964
Buy-in liability	1,896,075
Accounts payable	507,939

Total current liabilities	6,977,978
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Net Position

Unrestricted	6,762,013
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Total liabilities and net position	\$ 13,739,991
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Northern Plains Insurance Pool
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2021

Operating Revenues	
Member contributions earned	\$ 25,830,927
Less reinsurance premiums ceded	<u>(1,544,396)</u>
Net operating revenues	<u>24,286,531</u>
Operating Expenses	
Claims and claims adjustment expenses incurred, net	27,985,264
Administrative and services fees	1,218,879
Stop loss claims ceded	(4,839,952)
Professional fees	175,599
Insurance	24,981
Other	<u>4,792</u>
Total operating expenses	<u>24,569,563</u>
Operating loss	(283,032)
Nonoperating Revenues (Expenses)	
Investment income	85,534
Net unrealized (loss)	<u>(50,614)</u>
Total nonoperating revenues (expenses)	<u>34,920</u>
Change in Net Position	(248,112)
Net Position - Beginning	<u>7,010,125</u>
Net Position - Ending	<u><u>\$ 6,762,013</u></u>

Northern Plains Insurance Pool

Statement of Cash Flows
Year Ended June 30, 2021

Operating Activities	
Contributions received	\$ 26,010,563
Reinsurance premiums paid	(1,544,396)
Stop loss claims received	2,363,128
Administrative and expenses of operations paid	(1,037,948)
Claims and claims adjustment expenses paid	<u>(27,358,264)</u>
Net cash used for operating activities	<u>(1,566,917)</u>
Investing Activities	
Interest income	69,840
Sale of investments	<u>2,044,400</u>
Net cash from investing activities	<u>2,114,240</u>
Cash Flows from Noncapital Financing Activity	
Dividends paid	<u>(2,090,377)</u>
Net Change in Cash and Cash Equivalents	(1,543,054)
Cash and Cash Equivalents, Beginning of Year	<u>4,589,726</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,046,672</u></u>
Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating loss	\$ (283,032)
(Increase) decrease in assets	
Receivables	(2,337,281)
Prepaid expense	(2,839)
Increase (decrease) in liabilities	
Estimated liability for reported and unreported claims and claims adjustment expenses	627,000
Accounts payable	423,529
Advance member contributions	<u>5,706</u>
Net cash used for operating activities	<u><u>\$ (1,566,917)</u></u>

Note 1 - Summary of Significant Accounting Policies**Financial Reporting Pool**

The Northern Plains Insurance Pool (Pool) is a Joint Power Authority authorized by South Dakota Codified Law (SDCL) 1-24, SDCL 13-10-3 and SDCL 13-10-9. The Pool is governed by a Joint Powers Agreement and Bylaws (Bylaws) established on April 1, 2017. The primary purpose of the Pool is to jointly provide for the security and welfare of their eligible employees (and certain others covered through those eligible employees) by the establishment and maintenance of the group health or welfare plan or plans that are jointly sponsored by the governmental units in the Pool. To be eligible for membership, an applicant must be a governmental unit and a member of the Northern Plains Insurance Pool. There were 56 members of the Pool as of June 30, 2021, which were school districts in the State of South Dakota. The objective of the Pool is to formulate, develop, and administer on behalf of the member organizations, a program of health coverage through pooling risks, self-insurance and joint purchases of insurance. As a result, the Pool initiated a health benefit plan that began on July 1, 2017. In order to begin operations, the Pool utilized member buy-ins and member contributions paid in advance, in addition to resources accumulated in the members' prior arrangement which totaled \$603,800 as of July 1, 2017.

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

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

The Pool's contract with its members requires the members meet an annual participation requirement of seventy five percent of total eligible employees as defined by the benefits plan or plans. A member may voluntarily terminate participation in a plan funded through the Pool effective as of the close of any Plan Year following completion of the member's initial participation period as defined by the Joint Powers Agreement.

In the event of termination or dissolution of the Pool, the affairs of the Pool shall be wound up as soon as may be reasonably practicable and the assets, or the liquidation proceeds, shall be paid out and distributed in the following order: (1) administration expenses, (2) amounts payable to beneficiaries, and lastly (3) reversion to members.

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 Pool risk pools.

Estimates

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

Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments classified in the financial statements consist primarily of certificates of deposits whose term to maturity at date of acquisition exceeds three months, and those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

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 Pool evaluates the collectability of such receivables monthly based on the reinsurers, members or other third-party payers' financial condition, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Reinsurance

In the normal course of business, the Pool seeks to reduce the loss that may arise from events that cause unfavorable underwriting results, by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the development of the estimated liability for reported and unreported claims and claims adjustment.

Income Taxes

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

Operating Revenues

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

Premium Deficiency

A premium deficiency exists when the sum of expected claims costs (including an estimated liability for unreported claims) and all expected claims adjustment expenses, expected dividends, and policy acquisition costs exceed related advance member contributions. The Pool anticipates investment income in determining if a premium deficiency exists. As of June 30, 2021, there was no premium deficiency reserve recorded.

Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses

The coverage offered by the Pool is on the occurrence basis. Occurrence basis coverage provides for payment of claims that occur during the period of coverage regardless of when the claim is reported. The Pool has a provision that pertains to terminating members in each of its member participation agreements, whereby the Pool will only provide coverage for all eligible claims received and paid by its claims administrator prior to the date of the termination of coverage. Management has determined that no reduction in the estimated liability for reported and unreported claims and claims adjustment expenses is required as of June 30, 2021 for terminated members. There were four that terminated membership during the year ended June 30, 2021. The estimated liability for reported and unreported claims and claims adjustment expenses is based upon data developed by the Pool's administrator. Industry experience and statistics were used to develop the estimated liability. The claims history of the Pool was also considered. The liability includes estimates of the costs to settle individual claims which have been reported, plus a provision for claims and costs incurred but not yet reported. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management of the Pool believes the estimated liability for reported and unreported claims and claims adjustment expenses is sufficient to cover the ultimate net cost of incurred claims, but such reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated. An independent actuary assisted management with the establishment of estimated claims liabilities for the year ended June 30, 2021.

Subrogation Recoverables

Claims are reduced for subrogation when payment is received, as subrogation amounts are immaterial. There was no change in assumptions used in the current year to create the liability. The nature of the recoverable is such that the length of collections, coverage of the member, other parties with a bona fide claim vary greatly from case to case. For this reason, the Pool feels that although collections are probable, they are not reasonable estimated and therefore are not accrued within the financial statements.

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 Pool 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 Pool for that year may be refunded to the members at the discretion of the Executive Board. Dividends were not declared by the Executive Board during the fiscal year ended June 30, 2021. Discretionary dividends are reported as an expense of the Fund in the year declared.

Enterprise Funds - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit-even if that government is not expected to make any payments-is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Equity is classified as Net Position and is displayed in two components:

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Buy-in Liability

Upon membership with the Pool, the new member is required to pay in an initial deposit that is estimated as one-month's premium. This deposit vests over a three-year period. If the member terminates prior to completing an initial three-year term, only the vested amount is returned to the member. The amount vests 30% after the first year of participation and 60% after the second year of participation. After three years of participation, the member will receive its deposit in full upon termination. The Pool has classified the member buy-ins amount as a liability which totaled \$1,896,075 as of June 30, 2021. On July 1, 2021, \$1,896,075 of the member buy-in liability became vested for refund upon member termination.

During the year ended June 30, 2021, four members notified the Pool of their intent to terminate their membership effective July 1, 2021. Subsequent to year-end, the Pool refunded the deposits to these four members in a total amount of \$134,805.

Note 2 - Deposits and Investments Fair Value Measurement, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The Pool's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1 and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits funds to be invested 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); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Fair Value Measurement - The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Pool has the following recurring fair value measurements as of June 30, 2021:

- U.S. Treasury Bills - Level 1, valued on active markets
- U.S. Treasury Notes - Level 1, valued on active markets
- Money Market Funds - Level 1, valued on active markets
- Negotiable Certificates of Deposits - Level 1, valued on active markets
- Fixed Income Mutual Funds - Level 1, valued on active markets
- Municipal Bonds - Level 2, valued on other markets

Credit Risk - State law limits eligible investments for the Pool, as discussed above. The Pool's investment policy does not further limit its investment choices.

As of June 30, 2021, the Pool had the following investments:

<u>Investment</u>	<u>Credit Rating</u>	<u>Fair Value</u>
U.S. Treasury Bills	AAA	\$ 4,749,019
Money Market Funds	AAA	1,247,561
U.S. Government Securities - Short-Term Mutual Funds	AAA	1,982,302
Negotiable Certificates of Deposit	N/A	<u>152,025</u>
Total investments		<u>\$ 8,130,907</u>

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the Pool's deposits may not be returned to it.

At June 30, 2021, none of the Pool's deposits in financial institutions were exposed to custodial credit risk.

Interest Rate Risk - The Pool does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - The Pool places no limit on the amount that may be invested in any one issuer.

Note 3 - Service Agreements

Sanford Health Plan and South Dakota State Medical Holding Company, Inc., d/b/a DAKOTACARE and its subsidiary Dakota Administrative Services are engaged as the Pool's third-party administrators (TPAs) to provide health claims administration services. The agreements provide that the TPAs be paid a claim administration fee based on various performance measurements including formulas based on per employee per month, hourly activity, and percentages of savings. Total fees incurred under the agreements was \$889,447 in 2021. These fees are claims adjustment expenses in the statement of revenue, expenses, and changes in net position.

Note 4 - Reinsurance

The Pool utilizes a reinsurance agreement to limit maximum loss and minimize exposures oil larger risk. During the year ended June 30, 2021, the Pool utilized one reinsurance agreement for health (medical, including prescription drugs), whereby all members are covered under a reinsurance agreement with a \$300,000 attachment point.

The Pool would be liable for any obligations that the reinsurance company are unable to meet under the reinsurance agreement. During the year ended June 30, 2021, claims expenses were reduced by \$4,839,952 due to recoveries from the reinsurance companies under contract.

Note 5 - Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expense

The Pool establishes liabilities for both reported and unreported covered events, which includes estimates of both future payments of claims and related claims adjustments expenses. The following is a summary of the change in those aggregate liabilities for the year ended June 30, 2021.

Reported and unreported claims and claims adjustment expense liabilities at beginning of year	\$ 1,908,000
Incurred claims and claims adjustment expenses provision for insured events of the current year	22,971,397
Payment of claims and claims adjustments expense attributable to insured events of the current year	<u>(22,344,397)</u>
Reported and unreported claims and claims adjustment expense liabilities at end of year	<u><u>\$ 2,535,000</u></u>

Note 6 - Related Party Transactions

The Pool is managed by a Board that consists of a representative from each member participating in the Pool. The Board has elected an Executive Board from its members who manage the operations of the Pool including engaging service providers to operate the Pool. The Executive Board is paid mileage to attend the meetings that are held quarterly. Total mileage paid during the year ended June 30, 2021 was \$2,727.

Note 7 - Contractual Obligations

The Pool has engaged with Marsh & McLennan Agency LLC Company to provide consultation and risk management services of insurance programs and provide other services as requested by the Executive Board. For the year ended June 30, 2021, Marsh & McLennan Agency LLC Company was paid \$12.75 per covered employee per month for the twelve-month period. Total fees paid under this contract for the year ended June 30, 2021 were \$354,144.

Note 8 - Subsequent Event

The Pool has evaluated for subsequent events through February 3, 2022, the date which the financial statements were available to be issued and is not aware of any events which would require recognition or disclosure in the financial statements.



Required Supplementary Information
June 30, 2021

Northern Plains Insurance Pool

Northern Plains Insurance Pool
Ten-Year Schedule of Claims Development
June 30, 2021

	2018	2019	2020	2021
Net Earned Member Contributions and Investment Income:				
Earned	\$24,542,479	\$ 25,502,671	\$ 25,406,543	\$25,830,927
Ceded	(1,211,845)	(1,698,738)	(1,358,535)	(1,544,396)
Net earned	<u>23,330,634</u>	<u>23,803,933</u>	<u>24,048,008</u>	<u>24,286,531</u>
Unallocated expenses	1,203,614	1,330,187	1,290,085	1,424,251
Estimated Claims and Expenses, End of Policy Year:				
Incurred	17,058,014	19,250,616	22,089,633	27,811,349
Ceded	-	(235,715)	(444,491)	(4,839,952)
Net incurred	<u>17,058,014</u>	<u>19,014,901</u>	<u>21,645,142</u>	<u>22,971,397</u>
Net Paid (Cumulative) as of:				
End of policy year	15,288,639	17,677,710	18,682,241	23,877,905
One year later	17,042,571	19,824,423	21,999,353	-
Two years later	17,046,983	20,332,653	-	-
Three years later	17,046,983	-	-	-
Reestimated Ceded Claims and Expenses	-	235,712	444,491	4,839,952
Reestimated Net Incurred Claims and Expenses:				
End of policy year	17,058,014	19,014,901	21,645,142	22,971,397
One year later	17,042,571	19,824,423	21,999,353	-
Two years later	17,046,983	20,332,653	-	-
Three years later	17,046,983	-	-	-
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year	<u>\$ (11,031)</u>	<u>\$ 1,317,752</u>	<u>\$ 354,211</u>	<u>\$ -</u>

* The year ending June 30, 2021 is the Pool's fourth year of operations; therefore, only four years are reported. Ultimately, this schedule will show ten-years of accumulated data.



Additional Reports
June 30, 2021

Northern Plains Insurance Pool



**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 Executive Member Board
Northern Plains Insurance Pool
Sioux Falls, 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 Northern Plains Insurance Pool (Pool), as of and for the year then ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Pool’s basic financial statements and have issued our report thereon dated February 3, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pool'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

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

Our consideration of internal control 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001, 2021-002, and 2021-003 that we consider to be material weaknesses.

Compliance and Other Matters

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

Pool's Response to Findings

The Pool's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Pool'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 1-24-17.1, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
February 3, 2022

Section I – Financial Statement Findings

**2021-001 Segregation of Duties
Material Weaknesses**

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.

Condition – The Pool’s third-party accountant has the ability to complete all of the duties related to receipt and disbursement transactions. Also, a formal review of adjusting journal entries does not take place.

Cause – There is a limited amount of individuals involved in the internal control process.

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

Recommendation – We recommend the Pool’s Executive Member Board be cognizant of this lack of segregation of duties for receipts and disbursements, as well as adjusting journal entries, and attempt to provide compensating controls whenever and wherever possible and practical. 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.

Views of Responsible Officials – Management agrees with the finding.

2021-002 Preparation of Financial Statements
Material Weakness

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

Condition – The Pool 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 accompany notes to the financial statements.

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

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

Recommendation –The Executive Member board should continually be aware of the financial reporting of the Pool and changes in reporting requirements.

Views of Responsible Officials – Management agrees with the finding.

2021-003 Material Journal Entries
Material Weakness

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

Condition – During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the Pool’s existing internal controls, and therefore could have resulted in a material misstatement of the Pool’s financial statements.

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

Effect – This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation – The Pool should ensure a thorough review and reconciliation of accounts takes place prior to the beginning of the audit.

Views of Responsible Officials – Management agrees with the finding.