

# BLACK HILLS EDUCATIONAL BENEFITS COOPERATIVE

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Financial Statements

**June 30, 2025**



**Black Hills Educational Benefits Cooperative**  
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**June 30, 2025**

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

Board of Directors  
Black Hills Educational Benefits Cooperative  
Rapid City, South Dakota

We have audited, in accordance with the 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 (*Government Auditing Standards*), the statements of net position, revenues, expenses, and changes in net position, and cash flows of Black Hills Educational Benefits Cooperative (the Cooperative), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated November 3, 2025.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Cooperative'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 Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 Cooperative'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 was for the limited purpose described in the first paragraph of this section 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 were not identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Management's Response as item 2025-001, that we consider to be a material weakness.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative'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*.

## **Black Hills Educational Benefits Cooperative's Response to Findings**

*Government Auditing Standards* require the auditor to perform limited procedures on the Cooperative's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Management's Response. The Cooperative's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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 Cooperative'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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Casey Peterson, LTD*

Casey Peterson, LTD

Rapid City, South Dakota

November 3, 2025

# Black Hills Educational Benefits Cooperative

## Schedule of Findings and Management's Response

### June 30, 2025

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#### FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weakness

Internal Control over Financial Reporting

2025-001 *Condition:* There is a lack of segregation of duties related to investment reconciliations, year-end journal entries, and estimates of claims incurred but not reported.

*Criteria:* Segregation of duties relating to financial recordkeeping is an integral part of a properly designed system of internal control.

*Cause:* The limited number of staff does not provide for adequate segregation of duties.

*Effect:* There is a possibility of fraud, or errors occurring and not being detected or corrected.

*Auditor's Recommendation:* Many compensating monitoring activities have been implemented using the Board of Directors and contracted employees of Black Hills Special Services Cooperative. The Board of Directors should continue to implement and perform all practical oversight and review functions.

*Management's Response:* The Cooperative does not employ any staff. The Cooperative contracts with Black Hills Special Services Cooperative (BHSSC) for fiscal services. Because of the limited number of banking, investment, and general ledger transactions during the year, the fiscal services were provided by an employee of BHSSC, with compensating monitoring activities by the Board of Directors and the independent claims administrator. All monthly enrollment reports are prepared by the independent claims administrator, Wellmark, and reviewed by their respective districts. Premiums are submitted by the districts accordingly. All individual claims paid are reviewed, approved, and paid by Wellmark. Due to the size of the Cooperative, it is not cost-beneficial to take further corrective action.

## Independent Auditor's Report

Board of Directors  
Black Hills Educational Benefits Cooperative  
Rapid City, South Dakota

### **Report on the Audit of the Financial Statements**

#### *Opinions*

We have audited the financial statements of Black Hills Educational Benefits Cooperative (the Cooperative), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Cooperative, as of June 30, 2025, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management 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 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for twelve months beyond the financial statement issuance date, including any currently known information that may raise substantial doubt shortly thereafter.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Claims Development be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2025 on our consideration of the Cooperative'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 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 Cooperative's internal control over financial reporting and compliance.

*Casey Peterson, LTD*

Casey Peterson, LTD

Rapid City, South Dakota

November 3, 2025



# **Black Hills Educational Benefits Cooperative Management's Discussion and Analysis (Unaudited) June 30, 2025**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Black Hills Educational Benefits Cooperative's (the Cooperative) annual financial report presents a discussion and analysis of the Cooperative's financial performance during the fiscal year ended June 30, 2025. Please read it in conjunction with the Cooperative's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The Cooperative's net position increased by \$8,108, cash increased by 2.60%, and investments increased by 5.84%.
- During the year, the Cooperative's revenues generated from contributions and investment income, net of reinsurance premiums, were \$8,108 greater than the \$6,268,603 in expenditures.
- The total cost of the Cooperative's programs increased by 13.04% which was due to an increase in net claims paid.
- The Cooperative reported an \$8,108 current-year surplus due to investment return.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the required supplementary information.

Proprietary fund statements offer short-term and long-term financial information about the activities that the Cooperative operates as a business.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the Cooperative's fund. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes. Fund accounting is required by South Dakota State Law.

The Cooperative's operations fall under the proprietary fund type.

*Proprietary Fund* - Services for which the Cooperative charges a fee are reported in a proprietary fund. The insurance fund is the only fund maintained by the Cooperative.

**Black Hills Educational Benefits Cooperative  
Management's Discussion and Analysis (Unaudited)  
June 30, 2025**

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**FINANCIAL ANALYSIS OF THE COOPERATIVE AS A WHOLE**

**Net Position**

The Cooperative's Statement of Net Position changed as follows:

**Table A-1  
Black Hills Education Benefits Cooperative  
Statement of Net Position**

	FY 2025	FY 2024	Total Percentage Change
Current Assets	\$ 6,933,881	\$ 6,708,394	3.36%
Total Assets	<u>6,933,881</u>	<u>6,708,394</u>	3.36%
Current Liabilities	1,027,940	810,651	26.80%
Total Liabilities	<u>1,027,940</u>	<u>810,651</u>	26.80%
Unrestricted Net Position	5,905,941	5,897,833	0.14%
Total Net Position	<u>5,905,941</u>	<u>5,897,833</u>	0.14%
Net Position - Beginning	<u>5,897,833</u>	<u>5,715,148</u>	
Change in Net Position	<u>\$ 8,108</u>	<u>\$ 182,685</u>	
Percentage of Increase in Net Position	0.14%	3.20%	

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities of the Cooperative, consisting of claims incurred but not paid, have been reported in this same manner on the Statement of Net Position. The difference between the Cooperative's assets and liabilities is its net position.

**Changes in Net Assets**

The Cooperative's net revenues totaled \$6,276,711 (see Table A-2). Most of the Cooperative's net revenue comes from Other Revenue - Local Sources, or contributions from member districts. The Cooperative's expenses cover support services, which include board services, fiscal services, and non-programmed charges, which include reinsurance, claims, claims services, claims administration services, professional services, and excise taxes.

# Black Hills Educational Benefits Cooperative Management's Discussion and Analysis (Unaudited) June 30, 2025

## BUSINESS-TYPE ACTIVITIES

Table A-2 also considers the operations of business-type activities.

Revenues from the Cooperative's business-type activities increased by 9.58% to \$6,276,711 and expenses increased by 13.04% to \$6,268,603. Factors contributing to these changes include:

- The Cooperative had a gain on investments during FY 2025.
- Claims increased along with expenses in most other areas: administration fees and professional fees. Stoploss decreased because of an increase in a specific deductible.
- Enrollment increased 3.07% over the prior year.

**Table A-2**  
**Black Hills Education Benefits Cooperative**  
**Changes in Net Position**

	FY 2025	FY 2024	Total Percentage Change
Net Revenues:			
Gain from Investments and Deposits	\$ 342,429	\$ 256,303	33.60%
Member Contribution Premiums	6,921,078	6,593,401	4.97%
Less: Reinsurance Premiums	(986,796)	(1,121,677)	-12.02%
Total Net Revenues	<u>6,276,711</u>	<u>5,728,027</u>	9.58%
Expenses:			
Support Services	20,809	17,784	17.01%
Non-programmed Charges	<u>6,247,794</u>	<u>5,527,558</u>	13.03%
Total Expenses	<u>6,268,603</u>	<u>5,545,342</u>	13.04%
Increase in Net Position	<u>8,108</u>	<u>182,685</u>	-95.56%
Net Position - Ending	<u>\$ 5,905,941</u>	<u>\$ 5,897,833</u>	0.14%

## FINANCIAL ANALYSIS OF THE COOPERATIVE'S FUND

Net position increased by \$8,108 this year. Future reinsurance, administration fees, and claim increases will be covered by increased contributions and reserves.

## BUDGETARY HIGHLIGHTS

The Board approves a preliminary budget in May and adopts the final budget in August.

## CAPITAL ASSET ADMINISTRATION

The Cooperative has not acquired any capital assets.

**Black Hills Educational Benefits Cooperative  
Management's Discussion and Analysis (Unaudited)  
June 30, 2025**

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**LONG-TERM DEBT**

The Cooperative has not incurred and cannot incur any long-term debt.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Cooperative's current economic position has seen an increase in fund balance. The increase is attributed to an increase in revenues, most notably investments and rebates. Net claims also increased. The overall budget for next year will increase. Increases are budgeted for contributions, net claims, and contracted services.

**CONTACTING THE COOPERATIVE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Cooperative's finances and to demonstrate the Cooperative's accountability for the money it receives. If you have questions about this report or need additional information, contact Black Hills Educational Benefits Cooperative, 730 E. Watertown, Rapid City, SD 57701.

## FINANCIAL STATEMENTS

**Black Hills Educational Benefits Cooperative**  
**Statement of Net Position**  
**June 30, 2025**

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**ASSETS**

Cash and Cash Equivalents	\$ 688,519
Accounts Receivable	68,217
Prepaid Insurance	823
Investments	<u>6,176,322</u>

<b>TOTAL ASSETS</b>	<b><u>\$ 6,933,881</u></b>
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**LIABILITIES AND NET POSITION**

Liabilities:

Unearned Revenue	\$ 110,748
Fees Payable	112,116
Claims Incurred but Not Reported	<u>805,076</u>

Total Liabilities	1,027,940
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Net Position:

Unrestricted	<u>5,905,941</u>
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<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 6,933,881</u></b>
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The accompanying notes are an integral part of this statement.

**Black Hills Educational Benefits Cooperative**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2025**

**OPERATING REVENUES**

Premiums	\$ 6,921,078
Less: Reinsurance Premiums	<u>(986,796)</u>
Net Operating Revenues	<u>5,934,282</u>

**OPERATING EXPENSES**

Claims	5,726,372
Administration Fees	424,414
Professional Fees	77,350
Insurance Premiums	34,237
Directors' Fees	3,400
Travel	1,312
Supplies	784
Advertising	<u>734</u>
Total Operating Expenses	<u>6,268,603</u>

**OPERATING LOSS** (334,321)

**NON-OPERATING REVENUE**

Investment Income	163,732
Net Increase in Fair Value of Investments	<u>178,697</u>
Total Non-operating Revenue	<u>342,429</u>

**CHANGE IN NET POSITION** 8,108

**NET POSITION - BEGINNING** 5,897,833

**NET POSITION - ENDING** \$ 5,905,941

The accompanying notes are an integral part of this statement.

**Black Hills Educational Benefits Cooperative**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2025**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Receipts from Participants	\$ 7,058,221
Cash Payments for Reinsurance Premiums	(999,798)
Cash Payments for Professional Fees	(77,350)
Cash Payments for Administration Fees	(424,035)
Cash Payments for Other Administrative Expenses	(40,467)
Claims Paid Net of Stop-loss Reimbursement	<u>(5,500,568)</u>

Net Cash Provided by Operating Activities	<u>16,003</u>
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sale of Investments	452,000
Purchase of Investments	(614,265)
Investment Income	<u>163,732</u>

Net Cash Provided by Investing Activities	<u>1,467</u>
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<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>17,470</b>
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<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<b><u>671,049</u></b>
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<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 688,519</u></b>
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**RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Loss	\$ (334,321)
Adjustments to Reconcile Operating	
Loss to Net Cash Provided by Operating Activities	
Increase in:	
Accounts Receivable	132,566
Prepaid Insurance	379
Increase (Decrease) in:	
Unearned Revenue	4,577
Claims Incurred but Not Reported	225,804
Fees Payable	<u>(13,002)</u>

<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 16,003</u></b>
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The accompanying notes are an integral part of this statement.



**Black Hills Educational Benefits Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - DESCRIPTION OF THE COOPERATIVE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of the Cooperative

The Black Hills Educational Benefits Cooperative (the Cooperative) is a public entity risk pool organized as a cooperative education service unit, comprised of member public entities. The Cooperative was organized on July 1, 1996 to provide employee health benefit services to employees of member public entities through a partially self-funded plan. Risk is assumed by the Cooperative. Member public entities are liable for claims in excess of Cooperative assets. The goal of the Cooperative is to assist participating member public entities in providing appropriate benefits for all employees and families on a cooperative basis, services that these public entities would not be able to provide as effectively or as economically acting alone. Public entities seeking membership must be approved by an affirmative vote of a majority of the members of the Board of Directors. Any member entity may withdraw from the Cooperative by action of its Board of Directors. Withdrawal notice shall be made prior to February 1 for the succeeding school year. The Board of Directors can raise premiums or commit participating entities to obligations beyond the membership period. The Cooperative cannot enter into any long-term debt. A third-party administrator is selected to administer all claims and secure reinsurance and other insurance coverage. Plan members currently include Black Hills Special Service Cooperative, New Underwood School District 51-3, Wall School District 51-5, Custer School District 16-1, Oelrichs School District 23-3, and Belle Fourche School District 9-1.

Basis of Accounting

The Cooperative is a government entity comprised of one enterprise fund that uses the accrual basis of accounting for financial statement purposes. Revenues are recognized in the period in which they become due. Expenses are recognized in the period in which the related liability is incurred.

Operating income (loss) includes revenues and expenses related to the primary, continuing operations of the Cooperative. Principal operating revenues are premiums collected from participating entities. Principal operating expenses are the costs of providing health benefit services to employees of participating entities and their families. Other revenues and expenses, such as investment-related income and gain or loss, are reported as non-operating in the financial statements.

Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposits or short-term investments with a term to maturity at the date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist primarily of Government Agency Bonds and investments held with SD FIT.

Cooperative Benefits

Cooperative liabilities for health claims incurred but not reported are estimated based on experience and claims filed after the Cooperative's year-end.

**Black Hills Educational Benefits Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - DESCRIPTION OF THE COOPERATIVE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Reinsurance

The Cooperative uses a reinsurance agreement to reduce its exposure to large losses from health claims. Reinsurance permits recovery of a portion of claims from a reinsurer, although it does not discharge the primary liability of the Cooperative as the direct insurer of the risk reinsured. The Cooperative does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by the reinsurer. Premiums paid to the reinsurers during the year ended June 30, 2025 were \$986,796 and the amount deducted from claims liabilities as of June 30, 2025 for reinsurance was \$1,468,979.

Premium Deficiency

A premium deficiency exists when the expected claims costs (including incurred but not reported claims) (IBNR) and all expected claim adjustment expenses, expected dividends to pool participants, and incurred policy maintenance costs exceed related premium revenue. The Cooperative considers investment income when determining if a premium deficiency exists.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Cooperative considers certificates of deposit and all highly liquid investments and deposits with a term to maturity of three months or less when purchased to be cash equivalents.

Unearned Revenue

Unearned revenue consists of premiums paid in advance by member Districts.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

Revenue and Expense Classifications

In the Statement of Revenues, Expenses, and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Equity Classifications

Equity is classified as net position. The Cooperative has only unrestricted net position.

**Black Hills Educational Benefits Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**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 Cooperative's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. 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 that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified 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 Cooperative 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) above; or in shares of an open-end, no-load mutual fund administered by an investment company whose investments are in securities described in (a) above; and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to 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. The Cooperative elects to separately identify the change in the fair value of its investments from interest and dividend income, which is shown as a net increase (decrease) in the fair value of investments in the Statement of Revenue, Expenses, and Changes in Net Position.

Fair Value Measurement - The Cooperative 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. At June 30, 2025, the Cooperative's investments were all valued using Level 2 inputs.

The Cooperative had the following investments at June 30, 2025:

Government Agency Bonds	\$ 3,534,382
Certificates of Deposit	633,181
SD FIT	2,002,144
Money Market Fund	<u>6,615</u>
Total Investments Measured at Fair Value	<u>\$ 6,176,322</u>

The following describes the valuation techniques used by the Cooperative to determine the fair value of financial instruments as of June 30, 2025:

*Government Agency Bonds* - Bonds issued by the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal Farm Credit Bank. The fair values of government agency bonds are determined using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of government agency bonds are included in the Level 2 fair value hierarchy.

**Black Hills Educational Benefits Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 2 - DEPOSITS AND INVESTMENTS - FAIR VALUE MEASUREMENT, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK (CONTINUED)**

The South Dakota Public Fund Investment Trust (SD FIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. The net asset value of the SD FIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

As of June 30, 2025, the Cooperative had the following maturities of investments:

Investment	Credit Rating	Fair Value	Maturities		
			< 1 Year	1 - 5 Years	> 5 Years
Government Agency Bonds	AAA	\$ 3,534,382	\$ 257,029	\$ 2,675,219	\$ 602,134
Certificates of Deposit	FDIC	633,181	169,989	437,543	25,649
SD FIT	Not Rated	2,002,144	2,002,144	-	-
Money Market Fund	Not Rated	6,615	6,615	-	-
		<u>\$ 6,176,322</u>	<u>\$ 2,435,777</u>	<u>\$ 3,112,762</u>	<u>\$ 627,783</u>

*Credit Risk* - State law limits eligible investments for the Cooperative, as discussed above. The Cooperative has no investment policy that would further limit its investment choices.

*Interest Rate Risk* - The Cooperative 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 Cooperative places no limit on the amount that may be invested in any one issuer.

*Custodial Credit Risk - Deposits* - The risk that, in the event of a depository failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of June 30, 2025, the Cooperative's deposits in financial institutions were not exposed to credit risk, as all deposits were fully collateralized or covered by the FDIC.

*Custodial Credit Risk - Investments* - The risk that, in the event of the counterparty to a transaction, the Cooperative will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

# Black Hills Educational Benefits Cooperative

## Notes to the Financial Statements

### June 30, 2025

#### NOTE 3 - UNPAID CLAIMS LIABILITIES

As discussed in Note 1, the Cooperative establishes a liability for both reported and unreported insured events, which includes estimates of future payments and losses. The following represents changes in those aggregate liabilities at June 30 for the Cooperative:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Amounts Currently Payable as Estimated and Incurred but not Reported to or for Participants and Dependents:			
Balance - Beginning	\$ 579,272	\$ 501,294	\$ 439,482
Claims Reported and Approved for Payment	7,195,351	6,005,461	5,193,742
Claims Paid	(6,969,547)	(5,927,483)	(5,131,930)
Increase in Estimated Claims Incurred but Not Reported	<u>-</u>	<u>-</u>	<u>-</u>
Balance - Ending	<u>\$ 805,076</u>	<u>\$ 579,272</u>	<u>\$ 501,294</u>

#### NOTE 4 - RELATED PARTY

Black Hills Special Service Cooperative (BHSSC), a plan member, provides office space, office supplies, and wages for the business manager of the Cooperative. The Cooperative reimbursed BHSSC \$16,675 for the period ended June 30, 2025.

#### NOTE 5 - EXCESS RISK HEALTH INSURANCE AND LIFE INSURANCE

The Cooperative purchases excess risk insurance covering claims over \$100,000 per policy year per covered person. The policy has an unlimited annual and lifetime limit. The Cooperative also purchases life insurance for plan participants.

#### NOTE 6 - RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts and errors and omissions. During the period ended June 30, 2025, the Cooperative managed its risks as follows:

##### Liability Insurance

The Cooperative purchases liability insurance for risks related to torts and errors and omissions of directors and officers from a commercial insurance carrier. There have been no claims resulting from these risks during the past three years.

#### NOTE 7 - SUBSEQUENT EVENTS

The Cooperative had no subsequent events requiring recording or disclosure in the financial statements through the date of the independent auditor's report, which is the date the financial statements were available for issue.

## REQUIRED SUPPLEMENTARY INFORMATION

**Black Hills Educational Benefits Cooperative**  
**Schedule of Claims Development (Unaudited)**  
**June 30**

	2016	2017	2018	2019	2020
Net Earned Member Contributions and Investment Income:					
Earned	\$ 5,030,138	\$ 5,197,576	\$ 5,139,018	\$ 5,257,272	\$ 5,295,223
Ceded	<u>(787,089)</u>	<u>(817,759)</u>	<u>(896,019)</u>	<u>(996,730)</u>	<u>(1,054,285)</u>
Net Earned	4,243,049	4,379,817	4,242,999	4,260,542	4,240,938
Unallocated Expenses	364,553	378,571	353,150	390,946	405,319
Estimated Claims and Expenses, End of Policy Year					
Incurred	3,372,225	4,241,715	3,938,210	4,806,290	5,219,435
Ceded	<u>(265,918)</u>	<u>(765,298)</u>	<u>(784,769)</u>	<u>(999,907)</u>	<u>(1,126,037)</u>
Net Incurred	3,106,307	3,476,417	3,153,441	3,806,383	4,093,398
Net Paid (Cumulative) as of:					
End of Policy Year	3,142,825	3,412,273	3,180,975	3,878,085	3,948,220
One Year Later	3,206,969	3,384,739	3,109,273	4,023,263	3,983,853
Two Years Later	3,271,113	3,357,205	3,037,571	4,168,441	4,019,486
Three Years Later	3,335,257	3,329,671	2,965,869	4,313,619	4,055,119
Four Years Later	3,399,401	3,302,137	2,894,167	4,458,797	4,090,752
Five Years Later	3,463,545	3,274,603	2,822,465	4,603,975	4,126,385
Six Years Later	3,527,689	3,247,069	2,750,763	4,749,153	-
Seven Years Later	3,591,833	3,219,535	2,679,061	-	-
Eight Years Later	3,655,977	3,192,001	-	-	-
Nine Years Later	3,720,121	-	-	-	-
Reestimated Ceded Claims and Expenses	(265,918)	(765,298)	(784,769)	(999,907)	(1,126,037)
Reestimated Net Incurred Claims and Expenses:					
End of Policy Year	3,142,825	3,412,273	3,180,975	3,878,085	3,948,220
One Year Later	3,206,969	3,384,739	3,109,273	4,023,263	3,983,853
Two Years Later	3,271,113	3,357,205	3,037,571	4,168,441	4,019,486
Three Years Later	3,335,257	3,329,671	2,965,869	4,313,619	4,055,119
Four Years Later	3,399,401	3,302,137	2,894,167	4,458,797	4,090,752
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Six Years Later	3,527,689	3,247,069	2,750,763	4,749,153	-
Seven Years Later	3,591,833	3,219,535	2,679,061	-	-
Eight Years Later	3,655,977	3,192,001	-	-	-
Nine Years Later	3,720,121	-	-	-	-
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year	64,144	(27,534)	(71,702)	145,178	35,633

See independent auditor's report.

**Black Hills Educational Benefits Cooperative**  
**Schedule of Claims Development (Unaudited)**  
**June 30**

	2021	2022	2023	2024	2025
Net Earned Member Contributions and Investment Income:					
Earned	\$ 5,291,828	\$ 6,085,203	\$ 6,371,900	\$ 6,593,401	\$ 6,921,077
Ceded	<u>(843,150)</u>	<u>(951,719)</u>	<u>(1,023,278)</u>	<u>(1,121,677)</u>	<u>(986,796)</u>
Net Earned	4,448,678	5,133,484	5,348,622	5,471,724	5,934,281
Unallocated Expenses	429,048	191,172	121,534	487,846	542,230
Estimated Claims and Expenses, End of Policy Year					
Incurred	4,924,909	5,752,368	5,200,296	6,005,461	7,195,352
Ceded	<u>(549,998)</u>	<u>(851,871)</u>	<u>(290,814)</u>	<u>(384,849)</u>	<u>(792,645)</u>
Net Incurred	4,374,911	4,900,497	4,909,482	5,620,612	6,402,707
Net Paid (Cumulative) as of:					
End of Policy Year	4,339,278	4,764,892	5,048,932	5,558,800	6,324,729
One Year Later	4,474,883	4,625,442	5,110,744	5,636,778	-
Two Years Later	4,610,488	4,485,992	5,172,556	-	-
Three Years Later	4,746,093	4,346,542	-	-	-
Four Years Later	4,881,698	-	-	-	-
Five Years Later	-	-	-	-	-
Six Years Later	-	-	-	-	-
Seven Years Later	-	-	-	-	-
Eight Years Later	-	-	-	-	-
Nine Years Later	-	-	-	-	-
Reestimated Ceded Claims and Expenses	(549,998)	(851,871)	(290,814)	(384,849)	(792,645)
Reestimated Net Incurred Claims and Expenses:					
End of Policy Year	4,339,278	4,764,892	5,048,932	5,558,800	6,324,729
One Year Later	4,474,883	4,625,442	5,110,744	5,636,778	-
Two Years Later	4,610,488	4,485,992	5,172,556	-	-
Three Years Later	4,746,093	4,346,542	-	-	-
Four Years Later	4,881,698	-	-	-	-
Five Years Later	-	-	-	-	-
Six Years Later	-	-	-	-	-
Seven Years Later	-	-	-	-	-
Eight Years Later	-	-	-	-	-
Nine Years Later	-	-	-	-	-
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year	135,605	(139,450)	61,812	77,978	225,804

See independent auditor's report.