

BLACK HILLS EDUCATIONAL BENEFITS COOPERATIVE

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS, AND
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2020

CASEY  **PETERSON**
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Black Hills Educational Benefits Cooperative
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June 30, 2020

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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
Sturgis, 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, 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, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated October 30, 2020.

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) to determine the 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 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 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 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 have not been identified. We did identify a certain deficiency in internal control described in the accompanying Schedule of Findings and Management's Responses as item 2020-001 that we consider to be a material weakness.



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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Black Hills Educational Benefits Cooperative's Response to Findings

Black Hills Educational Benefits Cooperative's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Management's Responses. Black Hills Educational Benefits Cooperative's response was not subjected to the auditing procedures applied in our 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.



Casey Peterson, Ltd.

Rapid City, South Dakota

October 30, 2020

**Black Hills Educational Benefits Cooperative
Schedule of Findings and Management's Responses
June 30, 2020**

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weakness

Internal Control over Financial Reporting

2020-001 *Condition:* There is a lack of segregation of duties related to the revenue and expenditure functions.

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 Cooperative employees. 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 the former Business Manager, 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.

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Independent Auditor's Report

Board of Directors
Black Hills Educational Benefits Cooperative
Sturgis, South Dakota

We have audited the accompanying financial statements of Black Hills Educational Benefits Cooperative (the Cooperative), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative'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 audit in accordance with auditing standards generally accepted in the United States of America. 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 Black Hills Educational Benefits Cooperative, as of June 30, 2020, and the changes in its financial position and cash flows thereof 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 Management's Discussion and Analysis and Schedule of Claims Development on pages 7 - 10 and 22 - 23 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.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota
October 30, 2020

Black Hills Educational Benefits Cooperative Management's Discussion and Analysis June 30, 2020

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, 2020. Please read it in conjunction with the Cooperative's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Cooperative's net position decreased by \$50,377, cash increased by 19.3%, and investments increased by .12%.
- During the year, the Cooperative's revenues generated from contributions and investment income, net of reinsurance premiums, were \$50,377 less than the \$4,498,716 in expenditures.
- The total cost of the Cooperative's programs increased by 7.18% which was due to an increase in net claims paid and administration fees.
- The Cooperative reported a \$50,377 current year deficit due to the increase in program expenses.

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.

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 is 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
June 30, 2020**

FINANCIAL ANALYSIS OF THE COOPERATIVE AS A WHOLE

Net Position

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

| | Proprietary Fund Activities FY 2020 | Proprietary Fund Activities FY 2019 | Total Percentage Change |
|---|--|--|-------------------------------|
| Current Assets | \$ 6,922,030 | \$ 6,841,985 | 1.17% |
| Total Assets | <u>6,922,030</u> | <u>6,841,985</u> | 1.17% |
| Current Liabilities | <u>646,199</u> | <u>515,777</u> | 25.29% |
| Total Liabilities | <u>646,199</u> | <u>515,777</u> | 25.29% |
| Unrestricted Net Position | <u>6,275,831</u> | <u>6,326,208</u> | -0.80% |
| Total Net Position | <u>6,275,831</u> | <u>6,326,208</u> | -0.80% |
| Beginning Net Position | <u>6,326,208</u> | <u>5,992,456</u> | |
| Change in Net Position | <u>\$ (50,377)</u> | <u>\$ 333,752</u> | |
| Percentage of (Decrease) Increase in Net Position | -0.80% | 5.57% | |

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 \$4,448,339 (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
June 30, 2020**

BUSINESS-TYPE ACTIVITIES

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

Revenues from the Cooperative's business-type activities decreased by 1.83% to \$4,448,339 and expenses increased by 7.18% to \$4,498,716. Factors contributing to these changes include:

- Revenues decreased because of a decrease in investments, as well as an increase in Reinsurance Premiums.
- Expenses increased in almost all areas: administration fees, net claims paid, and insurance premiums.
- The increase in contribution income correlated to the increase in participation. Enrollment continues to remain relatively stable.

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

| | Proprietary Fund Activities FY 2020 | Proprietary Fund Activities FY 2019 | Total Percentage Change |
|--|--|--|-------------------------------|
| Net Revenues: | | | |
| Earnings from Investments and Deposits | \$ 207,401 | \$ 270,540 | -23.34% |
| Member Contribution Premiums | 5,295,223 | 5,257,272 | 0.72% |
| Less: Reinsurance Premiums | <u>(1,054,285)</u> | <u>(996,730)</u> | 5.77% |
| Total Net Revenues | <u>4,448,339</u> | <u>4,531,082</u> | -1.83% |
| Expenses: | | | |
| Support Services | 14,199 | 11,282 | 25.86% |
| Non-programmed Charges | <u>4,484,517</u> | <u>4,186,048</u> | 7.13% |
| Total Expenses | <u>4,498,716</u> | <u>4,197,330</u> | 7.18% |
| (Decrease) Increase in Net Position | <u>(50,377)</u> | <u>333,752</u> | -115.09% |
| Ending Net Position | <u>\$ 6,275,831</u> | <u>\$ 6,326,208</u> | -0.80% |

FINANCIAL ANALYSIS OF THE COOPERATIVE'S FUND

Net position decreased by \$50,377 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
June 30, 2020**

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. This increase is attributed to an increase in contributions, but more so, an increase in investment income. The overall budget for next year will increase slightly. Increases are budgeted for contributions, investment income, and net claims.

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, 2020

ASSETS

| | |
|---------------------------|------------------|
| Cash and Cash Equivalents | \$ 686,061 |
| Accounts Receivable | 87,597 |
| Prepaid Insurance | 1,419 |
| Investments | <u>6,146,953</u> |

TOTAL ASSETS **\$ 6,922,030**

LIABILITIES AND NET POSITION

Liabilities:

| | |
|----------------------------------|----------------|
| Unearned Revenue | \$ 90,170 |
| Fees Payable | 112,702 |
| Claims Incurred but Not Reported | <u>443,327</u> |

Total Liabilities 646,199

Net Position:

Unrestricted 6,275,831

TOTAL LIABILITIES AND NET POSITION **\$ 6,922,030**

Black Hills Educational Benefits Cooperative
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

| | |
|--|----------------------------|
| OPERATING REVENUES | |
| Premiums | \$ 5,295,223 |
| Less: Reinsurance Premiums | <u>(1,054,285)</u> |
| Net Operating Revenues | <u>4,240,938</u> |
| OPERATING EXPENSES | |
| Claims | 4,093,398 |
| Administration Fees | 308,046 |
| Professional Fees | 61,400 |
| Insurance Premiums | 28,506 |
| Directors' Fees | 2,699 |
| Supplies | 1,993 |
| Travel | 1,975 |
| Advertising | <u>699</u> |
| Total Operating Expenses | <u>4,498,716</u> |
| OPERATING LOSS | <u>(257,778)</u> |
| NON-OPERATING REVENUES | |
| Investment Income | 121,462 |
| Net Realized Gain on Investments | 4 |
| Net Unrealized Gain on Investments | <u>85,935</u> |
| Total Non-operating Revenues | <u>207,401</u> |
| CHANGE IN NET POSITION | (50,377) |
| NET POSITION, BEGINNING OF YEAR | <u>6,326,208</u> |
| NET POSITION, END OF YEAR | <u><u>\$ 6,275,831</u></u> |

Black Hills Educational Benefits Cooperative
Statement of Cash Flows
For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|---------------------|
| Cash Receipts from Participants | \$ 5,424,287 |
| Cash Payments for Reinsurance | (1,049,666) |
| Cash Payments for Administration | (61,400) |
| Cash Payments for Insurance | (308,870) |
| Cash Payments for Other Administrative | (35,872) |
| Claims Paid | <u>(4,057,765)</u> |
| Net Cash Used by Operating Activities | <u>(89,286)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|--------------------|
| Proceeds from Sale of Investments | 6,106,000 |
| Purchase of Investments | (6,027,209) |
| Investment Income | <u>121,462</u> |
| Net Cash Provided by Investing Activities | <u>200,253</u> |

NET INCREASE IN CASH AND CASH EQUIVALENTS

110,967

CASH AND CASH EQUIVALENTS, BEGINNING

575,094

CASH AND CASH EQUIVALENTS, ENDING

\$ 686,061

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|---|--------------|
| Operating Loss | \$ (257,778) |
| Adjustments to Reconcile Operating | |
| Loss to Net Cash Provided by Operating Activities | |
| Decrease (Increase) in | |
| Accounts Receivable | 38,894 |
| Prepaid Insurance | (824) |
| Increase (Decrease) in: | |
| Deferred Revenue | 90,170 |
| Claims Payable | 35,633 |
| Fees Payable | <u>4,619</u> |

NET CASH USED BY OPERATING ACTIVITIES

\$ (89,286)

Black Hills Educational Benefits Cooperative
Notes to the Financial Statements
June 30, 2020

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 Black Hills Educational Benefits Cooperative. Member public entities are not 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 which 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.

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 certificates of deposit whose term to maturity at the date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Law (SDCL) 4-5-6.

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.

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, 2020 were \$1,054,285 and the amount deducted from claims liabilities as of June 30, 2020 for reinsurance was \$1,126,037.

Black Hills Educational Benefits Cooperative
Notes to the Financial Statements
June 30, 2020

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

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 Statements 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.

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

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 SDCLs 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 which 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.

Black Hills Educational Benefits Cooperative
Notes to the Financial Statements
June 30, 2020

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

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.

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, 2020, the Cooperative's investments were all valued using Level 2 inputs.

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.

The Cooperative had the following investments at June 30, 2020:

| | |
|--|---------------------|
| Government Bonds and Notes | \$ 1,540,678 |
| Certificates of Deposit | 2,862,482 |
| SD FIT | 1,529,218 |
| Money Market Fund | <u>214,575</u> |
| Total Investments Measured at Fair Value | <u>\$ 6,146,953</u> |

As of June 30, 2020, the Cooperative had the following maturities of investments:

| Investment | Credit Rating | Fair Value | Maturities | | |
|----------------------------|---------------|---------------------|---------------------|---------------------|---------------------|
| | | | < 1 Year | 1 - 5 Years | > 5 Years |
| Government Bonds and Notes | AAA | \$ 1,540,678 | \$ - | \$ 628,313 | \$ 912,365 |
| Certificates of Deposit | Not Rated | 2,862,482 | - | 2,729,193 | 133,289 |
| SD FIT | Not Rated | 1,529,218 | 1,511,705 | - | - |
| Money Market Fund | Not Rated | <u>214,575</u> | <u>214,575</u> | - | - |
| | | <u>\$ 6,146,953</u> | <u>\$ 1,726,280</u> | <u>\$ 3,357,506</u> | <u>\$ 1,045,654</u> |

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.

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.

Black Hills Educational Benefits Cooperative
Notes to the Financial Statements
June 30, 2020

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

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

Custodial Credit Risk - Investments - The Cooperative's investments, with the exception of the SD FIT account, are in a safekeeping account held by RBC Wealth Management, which has been designated its fiscal agent. There is no investment policy limiting the amount that can be held by one fiscal agent.

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 for the Cooperative during the year ended June 30, 2020.

Amounts Currently Payable as Estimated and Incurred but not Reported to or for Participants and Dependents

| | |
|--|-------------------|
| Balance at Beginning of Year | \$ 407,694 |
| Claims Reported and Approved for Payment | 5,527,231 |
| Claims Paid | (5,203,688) |
| Increase in Estimated Claims Incurred but Not Reported | <u>(287,910)</u> |
| Balance at End of Year | <u>\$ 443,327</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 \$900 per month for these expenses for a total of \$10,800 for the period ended June 30, 2020.

NOTE 5 - EXCESS RISK HEALTH INSURANCE AND LIFE INSURANCE

The Cooperative purchases excess risk insurance covering claims over \$70,000 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, 2020, 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 carrier. There have been no claims resulting from these risks during the past three years.

Black Hills Educational Benefits Cooperative
Notes to the Financial Statements
June 30, 2020

NOTE 7 - CONTINGENCIES

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact on the Cooperative's operations. The future effect and duration of these issues are unknown.

NOTE 8 - 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.

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REQUIRED SUPPLEMENTARY INFORMATION

Black Hills Educational Benefits Cooperative
Schedule of Claims Development
June 30, 2020

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|
| Net Earned Member Contributions and Investment Income: | | | | |
| Earned | \$ 3,929,550 | \$ 3,929,550 | \$ 3,999,609 | \$ 4,076,296 |
| Ceded | <u>(367,126)</u> | <u>(392,099)</u> | <u>(479,306)</u> | <u>(527,772)</u> |
| Net Earned | 3,562,424 | 3,537,451 | 3,520,303 | 3,548,525 |
| Unallocated Expenses | 171,714 | 171,646 | 168,961 | 37,881,346 |
| Estimated Claims and Expenses, End of Policy Year | | | | |
| Incurred | 4,451,533 | 4,072,653 | 5,473,506 | 4,142,210 |
| Ceded | <u>(725,946)</u> | <u>(583,211)</u> | <u>(564,992)</u> | <u>(792,176)</u> |
| Net Incurred | 3,725,587 | 3,489,442 | 4,908,514 | 3,350,034 |
| Net Paid (Cumulative) as of: | | | | |
| End of Policy Year | 3,766,430 | 3,251,931 | 4,739,641 | 3,748,385 |
| One Year Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Two Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Three Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Four Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Five Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Six Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Seven Years Later | 4,003,941 | 3,420,804 | 4,341,290 | - |
| Eight Years Later | 4,003,941 | 3,420,804 | - | - |
| Nine Years Later | 4,003,941 | - | - | - |
| Reestimated Ceded Claims and Expenses | (725,946) | (583,211) | (564,992) | (792,176) |
| Reestimated Net Incurred Claims and Expenses: | | | | |
| End of Policy Year | 3,766,430 | 3,251,931 | 4,739,641 | 3,748,385 |
| One Year Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Two Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Three Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Four Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Five Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Six Years Later | 4,003,941 | 3,420,804 | 4,341,290 | 3,350,034 |
| Seven Years Later | 4,003,941 | 3,420,804 | 4,341,290 | - |
| Eight Years Later | 4,003,941 | 3,420,804 | - | - |
| Nine Years Later | 4,003,941 | - | - | - |
| Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year | 237,511 | 168,873 | (398,351) | (398,351) |

See independent auditor's report.

| <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|------------------|------------------|------------------|------------------|------------------|--------------------|
| \$ 5,020,369 | \$ 5,030,138 | \$ 5,197,576 | \$ 5,139,018 | \$ 5,257,272 | \$ 5,295,223 |
| <u>(735,287)</u> | <u>(787,089)</u> | <u>(817,759)</u> | <u>(896,019)</u> | <u>(996,730)</u> | <u>(1,054,285)</u> |
| 4,285,082 | 4,243,049 | 4,379,817 | 4,242,999 | 4,260,542 | 4,240,938 |
| 276,552 | 364,553 | 378,571 | 353,150 | 390,946 | 46,376 |
| 3,514,545 | 3,372,225 | 4,241,715 | 3,938,210 | 4,806,290 | 5,219,435 |
| <u>(562,286)</u> | <u>(265,918)</u> | <u>(765,298)</u> | <u>(784,769)</u> | <u>(999,907)</u> | <u>(1,126,037)</u> |
| 2,952,259 | 3,106,307 | 3,476,417 | 3,153,441 | 3,806,383 | 4,093,398 |
| 3,350,610 | 3,142,825 | 3,412,273 | 3,180,975 | 3,806,383 | 4,405,274 |
| 3,314,092 | 3,206,969 | 3,384,739 | 3,109,273 | 3,566,209 | - |
| 3,314,092 | 3,206,969 | 3,384,739 | 3,109,273 | - | - |
| 3,314,092 | 3,206,969 | 3,384,739 | - | - | - |
| 3,314,092 | 3,206,969 | - | - | - | - |
| 3,314,092 | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| (562,286) | (265,918) | (765,298) | (784,769) | (999,907) | (1,126,037) |
| 3,350,610 | 3,142,825 | 3,412,273 | 3,180,975 | 3,878,085 | 4,405,274 |
| 3,314,092 | 3,206,969 | 3,384,739 | 3,109,273 | 3,566,209 | - |
| 3,314,092 | 3,206,969 | 3,384,739 | 3,109,273 | - | - |
| 3,314,092 | 3,206,969 | 3,384,739 | - | - | - |
| 3,314,092 | 3,206,969 | - | - | - | - |
| 3,314,092 | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| (36,518) | 64,144 | (27,534) | (71,702) | (311,876) | - |

See independent auditor's report.