The Health Pool of South Dakota

Financial Statements
With Supplementary Information
With Independent Auditor's Report Thereon
December 31, 2017

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Contents

Independent Auditor's Report

Board of Trustees
The Health Pool of South Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of The Health Pool of South Dakota (the Pool), as of December 31, 2017, and for the period from July 1, 2017 through December 31, 2017, 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 audit 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 Health Pool of South Dakota as of December 31, 2017, and the changes in its financial position and its cash flows for the period from July 1, 2017 through December 31, 2017, 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 schedule of claims development information on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the schedule of claims development information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 November 14, 2018, 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 other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the Pool's internal control over financial reporting and compliance.

RSM US LLP

Sioux Falls, South Dakota
November 14, 2018

The Health Pool of South Dakota

Statement of Net Position
December 31, 2017

Assets	
Current assets:	
Cash and cash equivalents	$ 956,030
Certificates of deposit	151,469
Debt and equity securities	149,764
Receivables:	
Member contributions	5,153
Reinsurance	3,318
Investment income	14,762
Pharmacy rebates	65,444
Prepaid expenses	1,116
Total current assets	1,347,056
Long-term investments:	
Certificates of deposit	1,579,346
Debt and equity securities	1,309,879
	$ 4,236,281
Liabilities and Net Position	
Current liabilities:	
Estimated liability for reported and unreported claims and claims adjustment expenses	$ 325,000
Accounts payable	152,518
Advance member contributions	1,711
Accrued expenses	6,547
Total current liabilities	485,776
Net position:	
Unrestricted	3,750,505
	$ 4,236,281

See notes to financial statements.

The Health Pool of South Dakota

Statement of Revenues, Expenses and Changes in Net Position
Period From July 1, 2017 Through December 31, 2017

Operating revenues:	
Member contributions earned	$ 2,446,870
Less reinsurance premiums ceded	285,254
Net operating revenues	2,161,616
Operating expenses:	
Claims and claims adjustment expenses:	
Claims and claims adjustment expenses incurred, less pharmacy rebates	2,035,583
Reinsurance recoveries	(3,318)
Total claims and claims adjustment expenses incurred	2,032,265
General and administrative expenses:	
Ancillary services expense	29,923
Service fee	10,928
Accounting fees	8,610
Sponsorship fee	5,970
Board of Trustee fees and expenses	3,897
Affordable Care Act fees	2,393
Bookkeeping fees	2,260
Bonds and insurance	1,676
Advertising	1,304
Other	97
Total general and administrative expenses	67,058
Operating income	62,293
Nonoperating income:	
Net investment income	22,164
Net unrealized losses on investments	(759)
Total nonoperating income	21,405
Change in net position	83,698
Net position:	
Beginning of year	3,666,807
End of year	$ 3,750,505

See notes to financial statements.

The Health Pool of South Dakota

Statement of Cash Flows
Period From July 1, 2017 Through December 31, 2017

Cash flows from operating activities:	
Contributions received	$ 2,448,446
Reinsurance premiums paid	(283,321)
Underwriting and expenses of operations paid	4,586
Claims and claims adjustment expenses paid	(1,927,311)
Net cash provided by operating activities	242,400
Cash flows from investing activities:	
Debt and equity securities:	
Sales and maturities	116,487
Purchases	(102,594)
Investment income received, net of investment expenses	21,804
Net cash provided by investing activities	35,697
Net increase in cash and cash equivalents	278,097
Cash and cash equivalents:	
Beginning	677,933
Ending	$ 956,030
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 62,293
Change in assets and liabilities:	
Decrease in receivables	104,819
Decrease in prepaid expenses	21,077
Increase in accounts payable	50,024
Increase in unearned revenue	1,711
Increase in accrued expenses	2,476
Net cash provided by operating activities	$ 242,400
Supplemental disclosure of noncash investing and financing activities:	
Net decrease in the fair value of investments	$ (759)

See notes to financial statements.

Note 1. Nature of Business and Significant Accounting Policies

Reporting entity: The Health Pool of South Dakota (Pool) provides health and other health related coverages for member organizations. There were 55 members of the Pool as of December 31, 2017, all of which were cities, counties, townships and special districts of the State of South Dakota. The objective of the Pool is to provide and implement group health coverage and health maintenance cost containment programs and procedures to employees of South Dakota public agencies. The Pool is supervised by a Board of Trustees consisting of up to seven members. In 2017, the Pool changed its fiscal year end from June 30 to December 31.

The Pool operates as a single proprietary fund, more specifically as an enterprise fund. 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 generally result from investment activities.

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

The Pool's by-laws contain a provision stating that if a series of claims exhaust the Pool's net position, then the payment of those claims will be the sole and separate obligation of the individual member or members against whom the claim is made and perfected by litigation or settlement. Members agree to continue membership in the Pool for a period of not less than twelve months from a renewal date of January 1, and may withdraw from the Pool by giving written notice to the Pool no later than 60 days prior to January 1. All claims and claim expenses paid after the date of withdrawal become the sole responsibility of the withdrawing member without regard to whether the claims occurred or were reported prior to the member's withdrawal from the Pool. The Pool assumes no liability for payment of claims by virtue of servicing claims for members that terminate or withdraw from the Pool. At the request of the withdrawing member, the Pool will continue to service all claims which had been reported to the Pool during the withdrawing member's period of participation, so long as the withdrawing member promptly repays the Pool for all claims and claim expenses incurred.

In the event the Pool's unrestricted net position totals at least $15,000,000, the Board of Trustees shall establish a Member Equity Account to be determined at the end of the Pool's related calendar year. Any surplus monies (net position) or amounts in an individual Member Equity Account (if such account has been established) for a calendar year in excess of the amount necessary to fulfill all obligations of the Pool for that year may be refunded by the Board of Trustees, at a time agreed to by the Board of Trustees. Any surplus monies may also be retained by the Pool for purposes of the Pool and such a determination shall be at the complete discretion of the Board of Trustees.

A withdrawing or terminated member shall have no right in or interest to any accrued or current excess contributions previously declared to be payable by the Board of Trustees or in any net position (equity) amounts or any amounts in the Member Equity Account (provided a Member Equity Account has been established), except that a withdrawing member shall have a right to receive the balance in its Member Equity Account (if such account has been established), if at the time of payment the Pool's net operating revenues are less than three times the unrestricted net position of the Pool and the unrestricted net position remains at a level greater than $15,000,000 considering the proposed payment of the scheduled amount(s). Payments from the Member Equity Account upon withdrawal will be scheduled for payment in five equal annual installments. Any cumulative member equity amounts not deemed payable at the end of such five year period under the provisions above will be allocated to other current members of the Pool under a method determined by the Board of Trustees. No Member Equity Accounts have been established through December 31, 2017.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Upon termination of the Pool and after payment of all claims and losses, all remaining funds held by the Pool shall be paid to all Members of the Pool at the time of the vote of termination, on a pro rata basis determined by the Board of Trustees. If upon termination of the Pool, the remaining assets of the Pool are insufficient to satisfy the indebtedness of the Pool (excluding claims or judgments against individual Members), such deficiency shall be made up by assessments against Members of the Pool by a fair and reasonable method established by the Board of Trustees.

A summary of the Pool's significant accounting policies follows:

Basis of presentation: The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Use of 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, amounts recoverable from reinsurers under excess of loss agreements, pharmacy rebates receivable, and the determination of estimated fair values of investments.

Cash and cash equivalents: For purposes of reporting cash flows, the Pool considers money market funds to be cash equivalents. Certificates of deposit, with purchased maturities of ninety days or less, are considered cash equivalents.

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 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. An allowance for doubtful accounts was not deemed necessary by the Pool's management as of December 31, 2017.

Investments: The Pool reports investments (other than certificates of deposit) at fair value in the statements of net position with changes in the fair value of investments reported as investment income. Fair value is the price that would be received to sell the investment in an orderly transaction between market participants at the measurement date. Fair value of actively traded securities is determined by the reported market value of securities trading on national exchanges. Values of securities not actively traded are based on observable inputs of similar financial instruments. Certificates of deposits are stated at cost.

Dividend and interest income are recognized when earned. Investment expenses are netted against investment income.

The calculation of realized gains and losses is independent of the calculation of the net increase (decrease) in the fair value of investments. Realized gains and losses on investments that had been held for more than one year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Member contributions and unearned income: Members are billed monthly in advance for a deposit contribution. 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. Member contributions are reduced by reinsurance premiums ceded to the reinsurance companies.

Contribution deficiency: A contribution deficiency exists when the sum of expected claims costs (including an estimated liability for unreported claims), all expected claims adjustment expenses, and policy acquisition costs exceed related unearned premiums. The Pool anticipates investment income in determining if a premium deficiency exists. At December 31, 2017, the Fund determined no contribution deficiency existed.

Reinsurance: In the normal course of business, the Pool and its members seek to reduce the loss that may arise from events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Amounts recoverable from reinsurers under excess of loss coverages are estimated in a manner consistent with the development of the estimated liability for reported and unreported claims and claims adjustment expenses. Amounts recoverable from reinsurers that relate to paid claim losses and loss adjustment expenses are classified as assets, net of an allowance for any estimated uncollectible amounts, and as a reduction to claims expenses incurred.

Income taxes: The Pool's management believes that its 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.

Estimated liability for reported and unreported claims and claims adjustment expenses: The coverage offered by the Pool is on an occurrence basis which provides for payment of claims that occur during the period of coverage and which are submitted within 12 months of the date of occurrence. The estimated liability for reported and unreported claims and claims adjustment expenses is based upon data developed by the Pool's Administrator. The liability includes estimates of the costs to settle individual claims which have been reported, plus a provision for claims 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. Claims are reduced for subrogation when payment is received, as subrogation amounts are immaterial.

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 at December 31, 2017.

Note 2. Deposits and Investments

Custodial credit risk—deposits: The Pool's cash and cash equivalents are comprised of money market and deposit accounts. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Pool's deposits may not be returned to it. As of December 31, 2017, deposits of $627,289 were exposed to custodial credit risk, as they were uninsured, and the collateral was held by the pledging bank not in the Pool's name.

Note 2. Deposits and Investments (Continued)

Custodial credit risk—investments: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (i.e. broker-dealer) to a transaction, the Pool will not be able to recover the value of its investments that are in the possession of another party. As of December 31, 2017, investments of $1,459,643 were exposed to custodial credit risk as they were uninsured, not registered in the Pool's name, and are held by the counterparty's trust department but not in the Pool's name.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Pool limits interest rate risk by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity. Investment maturities are staggered in such a manner that all investments will not come due at the same time. The cash and cash equivalents and investment portfolio will be managed with a portfolio effective duration no longer than four years. The Pool's investment policy also requires that at least 10 percent of investable funds be held in a stable value investment to provide liquidity.

As of December 31, 2017, the Fund had the following fixed income securities and maturities:

	Fair Value/	Investment Maturities (In Years)			
Investment Type	Carrying Value	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasury issues	$ 666,992	$ 50,054	$ 616,938	$ -	$ -
Mutual funds—bonds	352,875	-	-	352,875	-
U.S. government agencies	338,926	49,869	71,177	140,468	77,412
Corporate bonds	51,009	-	-	51,009	-
Municipal bonds	49,841	49,841	-	-	-
	$ 1,459,643	$ 149,764	$ 688,115	$ 544,352	$ 77,412

The net decrease in the fair value of investments for the six months ended December 31, 2017, was $759. The amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. Gross realized investment gains were $0 and gross realized investment losses were $8,788 for the six months ended December 31, 2017. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and current year.

Note 2. Deposits and Investments (Continued)

Credit risk: Suitable investments described in the Pool's investment policy include interest bearing checking accounts, savings accounts, United States Treasury bills, bonds and notes, United States Government Agencies, among other securities described in the Pool's investment policy. The Pool has no investment policy that would further limit its investment choices other than as described in its investment footnote disclosures. The Pool's investment policy states that corporate and municipal bonds rated A or better by Moody's Investment Service or an equivalent rating by another recognized service, and mutual and money market funds that invest in U.S. Treasury securities, are acceptable. The credit ratings for investments as of December 31, 2017, are as follows:

Investment Type	2017 Fair Value	Rating
Mutual funds—bonds	$ 352,875	NR
U.S. government agencies	338,926	AAA
Corporate bonds	51,009	A+
Municipal bonds	49,841	AAA

Concentration of credit risk: The Pool's investment policy states that no more than 50 percent of the investable funds shall be placed in any one financial institution. Bond obligations of any one corporate or municipal issuer may not account for more than 5 percent of the portfolio market value at time of purchase. The aggregate market value of all non-government-backed corporate and municipal bonds shall not exceed 25 percent of the portfolio market value at time of purchase.

Note 3. Fair Value of Financial Instruments

The fair value framework requires the categorization of assets and liabilities that are measured at fair value into one of three levels based on the assumptions (inputs) used in valuing the assets or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are observable, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Inputs are unobservable, reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The Pool uses the best available information in measuring fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Note 3. Fair Value of Financial Instruments (Continued)

Assets measured at fair value on a recurring basis at December 31, 2017, are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2017:			
U.S. Treasury issues	$ 666,992	$ -	$ -
Mutual funds—bonds	352,875	-	-
U.S. government agencies	-	338,926	-
Corporate bonds	-	51,009	-
Municipal bonds	-	49,841	-
	$ 1,019,867	$ 439,776	$ -

Debt securities classified in Level 1 are valued using quoted market prices in an active market. Debt securities classified in Level 2 are valued based on observable market based inputs for similar securities. There were no transfers between levels during the period ended December 31, 2017.

Note 4. Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses

The Pool establishes liabilities for both reported and unreported covered events, which includes estimates of both future payments of claims and related claims adjustment expenses. The following is a summary of the changes in those aggregate liabilities for the six months ended December 31, 2017:

Reported and unreported claims and claims adjustment expenses at beginning of period	$ 325,000
Incurred claims and claims adjustment expenses:	
Provision for insured events of the current period	2,141,979
Provision for insured events of prior periods	(109,714)
Total incurred claims and claims adjustment expenses	2,032,265
Payments:	
Claims and claims adjustment expenses attributable to insured events of the current period	1,885,741
Claims and claims adjustment expenses attributable to insured events of prior periods	41,570
Total payments	1,927,311
Less reinsurance recoverables at beginning of period	(78,417)
Less pharmacy rebate receivable at beginning of period	(95,299)
Plus reinsurance recoverables at end of period	3,318
Plus pharmacy rebate receivable at end of period	65,444
	(104,954)
Total reported and unreported claims and claims adjustment expenses at end of period	$ 325,000

The decrease in the prior year provision of incurred claims and claims adjustment expenses resulted from changes in loss development experience as more information became known and payments made.

Note 5. Reinsurance

The Pool and its members utilize reinsurance agreements to limit maximum loss and minimize exposures on larger risks. Under the reinsurance agreements in effect during the period ending December 31, 2017, the Pool was reimbursed under an individual stop loss policy.

Under the stop loss policy, a covered member is subject to an $80,000 deductible.

The Pool and its members would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. During the six months ended December 31, 2017, claims expenses incurred are net of $3,318 of recoveries from the reinsurance company under contract.

Note 6. Pharmacy Rebates

The Pool receives pharmacy rebates on a quarterly basis. As of December 31, 2017, a receivable was recorded equal to two quarters of rebates and an annual rebate adjustment. As of December 31, 2017, $65,444 of pharmacy rebates receivables were greater than 90 days outstanding. During the six months ended December 31, 2017, claims expenses incurred are net of $65,444 of pharmacy rebates.

Note 7. Service Agreements

The Pool has an agreement with Wellmark, Inc. to provide claims and program administration for the Pool. The agreement with Wellmark, Inc. expired December 31, 2017, and a new agreement was executed for the 2018 calendar year. The contracted compensation rate was $107.40 per covered employee per month for claims administration during 2017. Fees incurred under the agreement for the period ending December 31, 2017, were $117,660, of which $97,342 are reported in claims adjustment expenses and $20,318 are reported in ancillary services expense during the six months ended December 31, 2017.

Wellmark, Inc. has contracted with various companies to provide ancillary services such as utilization review and access to preferred provider discounts. The Pool collects premiums from the respective members and pays for third party service fees (included in ancillary services expense in the accompanying statements of revenues and expenses).

Note 8. Related-Party Transactions

The South Dakota Municipal League (SDML) is the sponsoring organization of the Pool. The Pool incurred expenses to SDML of $5,970 for the six months ended December 31, 2017, as a sponsorship fee and $10,928 for the six months ended December 31, 2017, as a service fee. No amounts were due to or from SDML at December 31, 2017.

Note 9. Major Members

The Pool had two major members for the period ending December 31, 2017. A major member is one which provides 10 percent or more of an entity’s revenue in any year. Net member contributions earned from the major members were approximately $420,000 and $317,000 for the six months ended December 31, 2017. No amounts were due from the major members at December 31, 2017.

Note 10. Contingencies

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

The Health Pool of South Dakota

Required Supplementary Information—Schedule of Claims Development Information (Unaudited)

	* 2008	* 2009	* 2010	* 2011	* 2012	* 2013	* 2014	* 2015	* 2016	* 2017	** 2017
Net earned member contributions and investment income:											
Earned	$2,508,677	$2,144,417	$2,192,775	$2,157,607	$2,240,526	$2,557,551	$3,040,771	$3,302,403	$3,239,530	$4,196,554	$2,481,934
Ceded	154,669	135,484	146,607	193,669	234,637	287,368	338,512	340,868	372,633	467,502	285,254
Net earned	2,354,008	2,008,933	2,046,168	1,963,938	2,005,889	2,270,183	2,702,259	2,961,535	2,866,897	3,729,052	2,196,680
Unallocated expenses	98,861	91,420	92,989	102,359	73,363	95,948	113,970	143,371	143,481	135,299	67,058
Estimated claims and expenses, end of policy year:											
Incurred	1,612,546	1,355,971	2,140,341	2,269,287	1,980,547	2,514,196	2,926,280	2,511,570	3,422,716	3,762,558	2,145,297
Ceded	-	-	523,255	371,637	108,550	70,130	151,880	76,567	357,394	664,986	3,318
Net incurred	1,612,546	1,355,971	1,617,086	1,897,650	1,871,997	2,444,066	2,774,400	2,435,003	3,065,322	3,097,572	2,141,979
Net paid (cumulative) as of:											
End of policy year	1,412,546	1,205,971	1,366,201	1,641,368	1,602,581	2,223,229	2,532,479	2,148,340	2,824,192	2,850,989	1,885,741
One year later	1,490,930	1,331,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,835	2,403,584	3,074,195	2,987,858	
Two years later	1,490,930	1,331,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,835	2,403,584			
Three years later	1,490,930	1,331,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,835				
Four years later	1,490,930	1,331,773	1,488,197	1,724,648	1,807,565	2,276,509					
Five years later	1,490,930	1,331,773	1,488,197	1,724,648	1,807,565						
Six years later	1,490,930	1,331,773	1,488,197	1,724,648							
Seven years later	1,490,930	1,331,773	1,488,197								
Eight years later	1,490,930	1,331,773									
Nine years later	1,490,930										
Re-estimated ceded claims and expenses	-	-	523,255	371,637	108,550	70,130	151,880	76,567	357,394	664,986	3,318
Re-estimated net incurred claims and expenses:											
End of policy year	1,612,546	1,335,971	1,617,086	1,897,650	1,871,997	2,444,066	2,774,400	2,435,003	3,065,322	3,097,572	2,141,979
One year later	1,490,930	1,311,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,755	2,403,584	3,074,195	2,987,858	
Two years later	1,490,930	1,311,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,755	2,403,584			
Three years later	1,490,930	1,311,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,755				
Four years later	1,490,930	1,311,773	1,488,197	1,724,648	1,807,565	2,276,509					
Five years later	1,490,930	1,311,773	1,488,197	1,724,648	1,807,565						
Six years later	1,490,930	1,311,773	1,488,197	1,724,648							
Seven years later	1,490,930	1,311,773	1,488,197								
Eight years later	1,490,930	1,311,773									
Nine years later	1,490,930										
Increase (decrease) in estimated net incurred claims and expenses from end of policy year	$ (121,616)	$ (24,198)	$ (128,889)	$ (173,002)	$ (64,432)	$ (167,557)	$ (1,645)	$ (31,419)	$ 8,873	$ (109,714)	$ -

* For the fiscal years ended June 30
** For the six-month period ended December 31, 2017. In October 2017, the Board of Trustees approved a fiscal year change from June 30 to December 31.

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 Trustees
The Health Pool of 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 The Health Pool of South Dakota (the Pool) as of and for the period from July 1, 2017 to December 31, 2017, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated November 14, 2018.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying schedule of findings and responses as finding 2017-001 and 2017-002 to be significant deficiencies.

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 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*.

The Pool's Responses to Findings
The Pool's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Pool's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.

RSM US LLP

Sioux Falls, South Dakota
November 14, 2018

Finding 2017-001

- *Criteria or specific requirement:* A system of internal controls requires a proper segregation of duties.

- *Condition:* One individual has access to initiate ACH transactions and issue checks with no secondary approval of the payment nor an independent subsequent review of all monthly disbursements. This resulted in an inappropriate expense reimbursement of an immaterial nature. The general ledger system utilized by the Pool is also unable to appropriately segregate duties resulting in individuals with general ledger access having the ability to record journal entries across all transaction cycles with limited oversight of these activities.

- *Effect:* A lack of segregation of duties could result in errors or irregularities occurring and not being detected on a timely basis.

- *Cause:* Due to the small number of individuals involved in the accounting process, a lack of segregation of duties exists.

- *Recommendation:* We recommend that the Pool perform an assessment of internal controls and either determine methods in which conflicting duties can be appropriately segregated or implement an appropriate review and approval process over significant transactions. We also recommend the Pool consider a general ledger software system that allows for strengthened IT controls.

- *Views of responsible officials and planned corrective action:* Management will review the duties assigned to accounting personnel and make changes to assignments, if necessary. We will also evaluate the general ledger software used by the third party provider to determine if a change in software is required.

The Health Pool of South Dakota

Schedule of Findings and Responses
Period Ended December 31, 2017

Finding 2017-002

- *Criteria or specific requirement:* A system of internal controls requires appropriate adjustment from a cash to accrual basis.

- *Condition:* The Pool did not properly adjust the opening net position balance as of July 1, 2017, as well as adjust current period receipts of pharmacy rebates to record on an accrual versus cash basis. Adjusting entries were necessary to appropriately record pharmacy rebates.

- *Effect:* The Pool's December 31, 2017, financial statements were improperly stated as a result of not properly converting pharmacy rebates received from a cash to accrual basis. An audit entry was necessary to adjust opening net position by approximately $95,300 and to increase pharmacy rebates receivable by approximately $65,400, which had the effect of reducing the change in net position (income) by approximately $29,900.

- *Cause:* Management did not have an adequate understanding of the nature of pharmacy rebates, nor evaluate the lag time between when rebates are received and the period when they are earned.

- *Recommendation:* We recommend that the Pool evaluate pharmacy rebates and record them in the appropriate period to which they relate. The Pool should also evaluate the appropriateness of recording an estimate of pharmacy rebates receivable and designate an individual with the appropriate accounting knowledge to calculate the estimate.

- *Views of responsible officials and planned corrective action:* Management intends to work with its third party provider to enhance its process of recording pharmacy rebates.