



Financial Statements
December 31, 2018

The Health Pool of South Dakota

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Independent Auditor's Report

To the Board of Trustees
The Health Pool of South Dakota
Pierre, SD

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of The Health Pool of South Dakota, which comprise the statement of net position as of December 31, 2018, 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 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, 2018, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of claims development information on pages 17 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 October 22, 2019 on our consideration of The Health Pool of South Dakota'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 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 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 Health Pool of South Dakota's internal control over financial reporting and compliance.



Fargo, North Dakota
October 22, 2019

The Health Pool of South Dakota
Statement of Net Position
December 31, 2018

Assets

Current Assets

Cash and cash equivalents	\$ 1,178,665
Certificates of deposit	738,763
Debt and equity securities	1,274,028
Receivables	
Member contributions	17,731
Reinsurance	45,472
Investment income	15,975
Pharmacy rebates	169,886
Prepaid expenses	1,086
	3,441,606

Long-term investments

Certificates of deposit	1,084,667
Debt and equity securities	645,603
	1,730,270

\$ 5,171,876

Liabilities and Net Position

Current Liabilities

Estimated liability for reported and unreported claims and claims adjustment expense	325,000
Payable to claims administrator	293,290
Advance member contributions	5,041
Accrued expenses	26,061
	649,392

Net position

Unrestricted	4,522,484
	\$ 5,171,876

The Health Pool of South Dakota
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2018

Operating revenues	
Member contributions earned	\$ 5,750,629
Less: reinsurance premiums ceded	<u>692,314</u>
Net operating revenues	<u>5,058,315</u>
Operating expenses	
Claims and claims adjustment expenses incurred	
Claims and claims adjustment expenses incurred	4,411,118
Reinsurance recoveries	<u>(260,160)</u>
Total Claims and claims adjustment expenses incurred	<u>4,150,958</u>
General and administrative expenses	
Ancillary services expense	74,403
Accounting fees	57,677
Service fee	22,510
Sponsorship fee	12,300
Bookkeeping fees	7,763
Board of Trustee fees and expenses	4,584
Bonds and insurance	3,289
Advertising	3,065
Affordable Care Act fees	1,969
Other	<u>1,598</u>
Total general and administrative expenses	<u>189,158</u>
Operating income	<u>718,199</u>
Other income (expense)	
Net investment income	69,407
Net unrealized loss on investments	<u>(15,627)</u>
Total other income (expense)	<u>53,780</u>
Change in net position	<u>\$ 771,979</u>
Change in Net Position	
Net position, beginning of year	\$ 3,750,505
Change in net position	<u>771,979</u>
Net position, end of year	<u>\$ 4,522,484</u>

The Health Pool of South Dakota
Statement of Cash Flows
Years Ended December 31, 2018

Operating Activities	
Contributions received	\$ 5,699,227
Reinsurance premiums paid	(672,800)
Underwriting and expenses of operations paid	(152,798)
Claims and claims adjustment expenses paid	<u>(4,150,958)</u>
Net cash provided by operating activities	<u>722,671</u>
Cash Flows from Investing Activities	
Debt and equity securities	
Sales and maturities	53,780
Purchases	(552,603)
Investment income received, net of investment expenses	<u>(1,213)</u>
Net cash provided by (used in) investing activities	<u>(500,036)</u>
Net change in cash and cash equivalents	222,635
Cash and cash equivalents, beginning of year	<u>956,030</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,178,665</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating gain	\$ 718,199
Adjustments to reconcile operating gain to net cash from operating activities	
Increase (decrease) in assets	
Contributions receivable	(12,578)
Reinsurance recoverable on paid losses	(146,596)
Prepaid expenses	30
Increase (decrease) in liabilities	
Losses and loss adjustment expense reserves	19,514
Accounts payable and accrued expenses	140,772
Unearned contributions	<u>3,330</u>
Net Cash Provided by Operating Activities	<u><u>\$ 722,671</u></u>
Supplemental Disclosure of Noncash Investing and Financing Activity	
Net increase in the fair value of investments	<u><u>\$ (14,868)</u></u>

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 67 members of the Pool as of December 31, 2018, 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.

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 result primarily 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 as of December 31, 2018.

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 judgements 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 accrual basis of accounting. The Pool prepares its financial statements primarily following the guidance of Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (as amended by subsequent GASB statements) along with other applicable standards issued by the GASB. GASB Statement No. 10 establishes accounting and financial reporting standards for risk financing and insurance-related activities of public entity risk pools.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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, pharmaceutical rebates and the determination of estimated fair values of investments.

Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Pool includes as cash equivalents all cash accounts and money market mutual funds which are not subject to withdrawal restrictions or penalties. Certificates of deposit with original maturities less than ninety days 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 reinsures 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 considered necessary by the Pool's management as of December 31, 2018.

Investments

Investment securities are accounted for under the provisions of GASB Statement No. 31, as amended by GASB 72 *Fair Value Measurement and Application*. Accordingly, the Pool is required to report investments at fair value in the statement of net position with changes in the fair value of investments reported as investment income. Certificates of deposit that are negotiable are also carried at fair market value. Nonparticipating 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.

The Pool's Board of Directors has authorized investments in certificates of deposit, United States Treasury and government agency issues, mortgage-backed securities, corporate and municipal bonds and mutual funds, among other investments.

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.

Reinsurance

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

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

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management of the Pool believes the estimated liability for losses and loss adjustment expense reserves 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.

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. Management believes that the Pool continues to operate in a manner whereby it continues to be tax exempt.

Contribution Deficiency

A contribution deficiency exists when the sum of expected claims costs (including an estimated liability for unreported claims) and all expected claims adjustment expenses, expected dividends, and policy acquisition costs exceed related unearned contribution. The Pool anticipates investment income in determining if a contribution deficiency exists. The Pool has not recognized a contribution deficiency as of December 31, 2018

Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses

The coverage offered by the Pool is on the 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. Industry experience and statistics were used to develop the estimated liability. The claims history of the Pool was also considered. The liability includes estimates of the costs to settle individual claims which have been reported, plus a provision for claims and costs incurred but not yet reported. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Claims are reduced for subrogation when payment is received, as subrogation amounts are immaterial. There was no change in assumptions used in the current year to create the liability.

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.

Subsequent Events

The Pool has evaluated subsequent events through October 22, 2019 the date on which the financial statements were available to be issued.

Note 2 - Deposits and Investments**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Pool's deposits may not be returned to it. 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. The Pool's cash and cash equivalents are comprised of money market and checking accounts, the balances of which are periodically in excess of federally insured limits. The Pool had investments and certificates of deposits in the amount of \$3,743,061 exposed to custodial credit risk as of December 31, 2018.

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 of 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, 2018, the Pool had the following fixed income securities and maturities:

	Fair Value/ Carrying Value	Investment Maturity (In Years)			
		Less than 1	1 to 5	6 to 10	10+
Corporate bonds	\$ 49,174	\$ -	\$ -	\$ 49,174	\$ -
Negotiable CD's	1,808,974	738,763	1,084,667	-	-
Fixed income mutual funds	1,046,719	1,046,719	-	-	-
U.S. Government MBS	210,919	27,558	93,467	26,420	63,474
U.S. treasury notes & bonds	612,820	199,752	413,068	-	-
	<u>\$ 3,728,606</u>	<u>\$ 2,012,792</u>	<u>\$ 1,591,202</u>	<u>\$ 75,594</u>	<u>\$ 63,474</u>

The net decrease in the fair value of investments for the years ended December 31, 2018, was \$15,627. The amount takes into account all changes in fair value (included purchases and sales) that occurred during the year. Gross realized investment losses were \$6,046 for the year ended December 31, 2018. 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.

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 the Pool's investments as of December 31, 2018 are as follows:

Investment Type	2018 Fair Value	Rating
Corporate bonds	\$ 49,174	AA-
Fixed income mutual funds	1,046,719	NR
U.S. Government MBS	210,919	AAA
U.S. treasury notes & bonds	612,820	AAA

Concentration of Credit Risk

The Pool's investment policy provides 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 the 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 Health Pool of South Dakota

Notes to Financial Statements

December 31, 2018

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.

Assets measured at fair value on a recurring basis as of December 31, 2018, are as follows:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
December 31, 2018				
Fixed Income Mutual Funds	\$ 1,046,719	\$ 1,046,719	\$ -	\$ -
Negotiable Cert. of Deposit	1,808,974	1,808,974	-	-
U.S. Treasury Notes & Bonds	612,820	612,820	-	-
Corporate Bonds	49,174	-	49,174	-
U.S. Government MBS	210,918	-	210,918	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,728,605</u>	<u>\$ 3,468,513</u>	<u>\$ 260,092</u>	<u>\$ -</u>

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, 2018.

Note 4 - Liability for Losses and Loss Adjustment Expense Reserves

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 years ended December 31, 2018:

Net unpaid losses and loss adjustment expense reserves, beginning of year	<u>325,000.00</u>
Net incurred losses and loss adjustment expenses	
Current year provision	4,312,444
Decrease in prior years' provisions	<u>(54,590)</u>
Net provision	<u>4,257,854</u>
Net losses and loss adjustment expense payments attributable to	
Current year	3,987,444
Prior years	<u>270,410</u>
Net payments	<u>4,257,854</u>
Unpaid losses and loss adjustment expense reserves, end of year	<u><u>\$ 325,000</u></u>

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expense reserves decreased approximately \$54,590. The change in incurred losses was primarily attributable to new information regarding claim development that became known during subsequent periods.

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, 2018, 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 year ended December 31, 2018, claims expenses incurred are net of \$260,160 of recoveries from the reinsurance company under contract.

The Pool would be liable for any claims that occurred for which their reinsurance policies would not cover. Such obligation could arise from losses in periods in which Pool did not have reinsurance for the specified claim.

Note 6 - Pharmacy Rebates

The Pool receives pharmacy rebates on a quarterly basis. As of December 31, 2018, a receivable was recorded equal to two quarters of rebates and an annual rebate adjustment. As of December 31, 2018, \$169,886 of pharmacy rebates receivables were greater than 90 days outstanding. During the year ended December 31, 2018, claims expenses incurred are net of \$169,886 of pharmacy rebates.

Note 7 - Service Agreements

The Pool has an agreement with Wellmark, Inc. to provide claims and program administration for the Pool. Fees incurred under the agreement for the period ended December 31, 2018, were \$284,116, of which \$237,030 are reported in claims adjustment expense and \$47,086 are reported in ancillary services expense during the year ended December 31, 2018.

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 statement of revenues and expenses).

Note 8 - Related Party Transactions

The South Dakota Municipal League (SDML) is the endorsing organization of the Pool and a related party. The Pool incurred expense to SDML of \$12,300 for the year ended December 31, 2018, as a sponsorship fee and \$22,510 for the year ended December 31, 2018, as a service fee. No amounts were due to from SDML as of December 31, 2018.

Note 9 - Major Members

The Pool had two major members for the period ending December 31, 2018. 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 \$865,000 and \$591,000 for the year ended December 31, 2018. No amounts were due from the major members as of year-end.

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.



Required Supplementary Information
December 31, 2018

The Health Pool of South Dakota

The Health Pool of South Dakota
Schedule of Contribution and Claim Development Information (Unaudited)
For the Ten Years Ended December 31, 2018

	*2009	*2010	*2011	*2012	*2013	*2014	*2015	*2016	*2017	**2017	***2018
Net Earned Member Contributions and Investment Income											
Earned	\$ 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	\$ 5,820,036
Ceded	135,484	146,607	193,669	234,637	287,368	338,512	340,868	372,633	467,502	285,254	692,314
Net earned	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	5,127,722
Unallocated Expenses	91,420	92,989	102,359	73,363	95,948	113,970	143,371	143,481	135,299	67,058	189,158
Estimated Claims and Expenses, End of Policy Year											
Incurred	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	4,465,708
Ceded	-	523,255	371,637	108,550	70,130	151,880	76,567	357,394	664,986	3,318	260,160
Net incurred	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	4,205,548
Net Paid (Cumulative) as of:											
End of policy year	1,205,971	1,366,201	1,641,368	1,641,368	2,223,229	2,532,479	2,148,340	2,824,192	2,850,989	1,885,741	4,136,270
One year later	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	2,135,551	
Two years later	1,331,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,835	2,403,584	3,074,195	3,008,458		
Three years later	1,331,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,835	2,403,584				
Four years later	1,331,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,835					
Five years later	1,331,773	1,488,197	1,724,648	1,807,565	2,276,509						
Six years later	1,331,773	1,488,197	1,724,648	1,807,565							
Seven years later	1,331,773	1,488,197	1,724,648								
Eight years later	1,331,773	1,488,197									
Nine years later	1,331,773										
Estimated Ceded Claims and Expenses	-	523,255	371,637	108,550	70,130	151,880	76,567	357,394	664,986	3,318	260,160
Estimated Net Incurred Claims and Expenses											
End of policy year	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	4,312,444
One year later	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	2,087,389	
Two years later	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		
Three years later	1,311,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,755					
Four years later	1,311,773	1,488,197	1,724,648	1,807,565	2,276,509	2,772,755					
Five years later	1,311,773	1,488,197	1,724,648	1,807,565	2,276,509						
Six years later	1,311,773	1,488,197	1,724,648	1,807,565							
Seven years later	1,311,773	1,488,197	1,724,648								
Eight years later	1,311,773	1,488,197									
Nine years later	1,311,773										
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year	(24,198)	(128,889)	(173,002)	(64,432)	(167,557)	(1,645)	(31,419)	8,873	(109,714)	(54,590)	-

* For the fiscal years ended June 30

** For six month period ended December 31, 2017



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

To the Board of Trustees
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) which comprise the statement of net position as of December 31, 2018, 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, and have issued our report thereon dated October 22, 2019.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify deficiencies in internal control, 2018-A and 2018-B in the accompanying schedule of findings and response, which we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pool's financial statements are free of 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*.

Pool's Response to Findings

The Pool's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The Pool's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool'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 Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Fargo, North Dakota
October 22, 2019

2018-A

Preparation of Financial Statements and Audit Entries
Significant Deficiency

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

Condition – The Pool does not have an internal control system designed to provide for the preparation of the financial statements being audited. In conjunction with the completion of our audit, we identified and proposed adjustments and were requested to draft the financial statements and accompanying notes to the financial statements.

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

Effect – The absence of controls over the preparation of the financial statements increases the possibility that a misstatement of the financial statements could occur and not be prevented or detected and corrected, by the Pool’s internal controls. The need for audit adjustments indicates that the Pool’s interim financial information received may not be correct, which may affect managements decisions made during the course of the year.

Recommendation – This circumstance is not unusual in a Pool of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

View of Responsible Officials – Eide Bailly cites that The Health Pool of South Dakota does not have an internal control system designed to provide for the preparation of the financial statements being audited and that we request you, as auditors, to draft the statements and accompanying notes. Management notes that this practice is not unusual for organizations of our size. Our accounting services provider performs accounting services on a monthly basis, including preparation of monthly financial statements. We have evaluated our internal controls over the preparation of the financial statements and risks associated with requesting the auditors to prepare the annual financial statements. Management has concluded that it does not believe the costs of employing staff to stay current with accounting standards that affect the annual financial statement reporting are outweighed by the Members’ benefit of using those resources elsewhere in the organization.

Finding 2018-B

**Segregation of Duties
Significant Deficiency**

Criteria – A good system of internal accounting controls requires 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. The general ledger system used 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 the Pool perform an assessment of internal controls and either determine methods for 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 that allows for strengthened IT controls.

Views of responsible officials – 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.