

**Northern Plains Insurance Pool**  
**Financial Statements**  
**June 30, 2018**



**NORTHERN PLAINS INSURANCE POOL  
SIOUX FALLS, SOUTH DAKOTA**

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# GRANT AND WILLIAMS INC.

CERTIFIED PUBLIC ACCOUNTANTS

[www.grantandwilliams.com](http://www.grantandwilliams.com)

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities of the Northern Plains Insurance Pool (Pool) as of June 30, 2018, and 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*

The Pool's executive board 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 the 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 of 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 respective financial position of business-type activities of the Pool as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 3 through 6 and Ten-Year Schedule of Claims Development Information - Unaudited on page 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 15, 2019 on our consideration of the Northern Plains Insurance Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern Plains Insurance Pool's internal control over financial reporting and compliance.

*Grant and Williams, Inc.*

Sioux Falls, South Dakota  
January 15, 2019

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

This section of Northern Plains Insurance Pool's annual financial report presents our discussion and analysis of the Pool's financial performance during the fiscal year ended on June 30, 2018. Please read it in conjunction with our financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Pool exceeded its liabilities at the close of the year by \$7,558,921 (net position). Of this amount, \$5,697,470 (unrestricted net position) may be used to meet the Pool's ongoing obligations to vendors.
- During the year, the Pool's expenses were \$5,066,146 less than the \$23,330,634 revenues and interest income totaled \$27,524, resulting in a corresponding increase in the Pool's net position.
- The Pool's estimated liability for reported and unreported claims and claims adjustments expenses totaled \$1,559,000 as of June 30, 2018.

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

The Pool's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental bodies (GAAP) and Governmental Accounting Standards Board (GASB). The Pool is a Joint Power Authority authorized by South Dakota Codified Law (SDCL) 1-24 et. Seq., SDCL 13-10-3 and 8-2-16. The primary purpose of the Pool is to jointly provide for the security and welfare of their eligible employees (and certain others covered through those eligible employees) by the establishment and maintenance of the group health or welfare plan or plans that are jointly sponsored by the governmental units in the Pool.

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

## FINANCIAL ANALYSIS OF THE POOL AS A WHOLE

### Net Position

The Pool's net position was follows:

#### Northern Plains Insurance Pool Statement of Net Position June 30, 2018

Current Assets	\$9,103,702
Non-current Assets	1,861,451
Total Assets	<u>10,965,153</u>
Estimated liability for reported and unreported claims and claims adjustment expenses	1,559,000
Advance member contributions	1,819,204
Accounts payable	28,028
Total Current Liabilities	<u>3,406,232</u>
Net Position:	
Restricted for member deposits	1,861,451
Unrestricted	5,697,470
Total Net Position	<u><u>\$7,558,921</u></u>

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The difference between the Pool's assets and liabilities is its net position.

## POOL ACTIVITIES

The table and the narrative that follows consider the operations of the Pool activities.

### Northern Plains Insurance Pool Changes in Net Position for June 30, 2018:

<b>Revenues</b>	
Member contributions earned	\$24,542,479
Less: Reinsurance premiums	<u>1,211,845</u>
Total Revenue	23,330,634
Operating Expenses	
Claims and claims adjustment expenses	17,058,014
Other operating expenses	<u>1,206,474</u>
Total Operating Expenses	18,264,488
Interest income	<u>27,524</u>
Increase in Net Position	5,093,670
Beginning Net Position	2,321,716
Other changes: Restricted member buy-ins received	143,535
Ending Net Position	<u><u>\$7,558,921</u></u>

### CHANGES IN NET POSITION:

The beginning net position balance was rolled by the members from a prior health benefit grouping arrangement between the original school district members. Increases to the pool include net member contributions totaling \$23,330,634. These contributions were offset by estimated liability for reported and unreported claims also commonly called Incurred but Not Reported (IBNR) or more accurately, Incurred but Not Yet Paid (IBNP) claims increased \$1,559,000 for the year ending June 30, 2018. Total claims for the first fiscal year totaled \$17,058,014. The total third party administrative and service fees totaled \$1,166,748 for the year ending June 30, 2018.



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

The Pool contracts with Sanford Health Plan and South Dakota State Medical Holding Company, Inc., d/b/a DAKOTACARE and its subsidiary Dakota Administrative Services for third party administrative services (TPA). This is the first fiscal year of operations for the pool. The members have budgeted with assumptions of no further members joining the pool and to continue operating with the same service providers.

## **CONTACTING THE POOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our membership, taxpayers, and stakeholders with a general overview of the Pool's finances and to demonstrate the Pool's accountability for the money it receives. If you have questions about the report or need additional information, contact the Northern Plains Insurance Pool, 2821 E 10<sup>th</sup> Street PMB #10, Sioux Falls, South Dakota 57103-0010, (605)-647-2203.

**NORTHERN PLAINS INSURANCE POOL**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	<u>2018</u>
<b>ASSETS</b>	
Current Assets	
Cash and cash equivalents	\$ 8,867,761
Member contribution receivables	224,260
Prepaid expenses	<u>11,681</u>
Total current assets	9,103,702
Non-current Assets	
Restricted cash and cash equivalents	<u>1,861,451</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 10,965,153</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Estimated liability for reported and unreported claims and claims adjustment expenses	\$ 1,559,000
Advance member contributions	1,819,204
Accounts payable	<u>28,028</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>3,406,232</u>
<b>NET POSITION</b>	
Restricted member buy-ins	1,861,451
Surplus - unrestricted	<u>5,697,470</u>
<b>TOTAL NET POSITION</b>	<u>7,558,921</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 10,965,153</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**NORTHERN PLAINS INSURANCE POOL**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**OPERATING REVENUES**

Member contributions earned	\$ 24,542,479
Less: Reinsurance premiums	<u>1,211,845</u>
Net operating revenues	23,330,634

**OPERATING EXPENSES**

Claims and claims adjustment expenses incurred, net	17,058,014
Administrative and services fees	1,166,748
Professional fees	24,213
Insurance	10,158
Other	<u>5,355</u>
Total operating expenses	<u>18,264,488</u>

Operating income	5,066,146
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**NONOPERATING REVENUES**

Interest income	<u>27,524</u>
Change in Net Position	5,093,670
Net Position - beginning	2,321,716
Other changes: Restricted member buy-ins received	<u>143,535</u>
Net Position - ending	<u><u>\$ 7,558,921</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**NORTHERN PLAINS INSURANCE POOL**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>
<b>OPERATING ACTIVITIES</b>	
Contributions received	\$ 24,541,137
Restricted buy-ins received	143,535
Reinsurance premiums paid	(1,211,845)
Administrative and expenses of operations paid	(375,093)
Claims and claims adjustments expenses paid	<u>(16,333,123)</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	6,764,611
<b>INVESTING ACTIVITY</b>	
Interest income received	<u>27,524</u>
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<u>27,524</u>
<b>NET INCREASE IN CASH</b>	6,792,135
<b>CASH, BEGINNING OF YEAR</b>	<u>3,937,077</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 10,729,212</u></u>
Cash and cash equivalents	\$ 8,867,761
Restricted cash and cash equivalents	<u>1,861,451</u>
	<u><u>\$ 10,729,212</u></u>
<b>Reconciliation of Operating Income to Net Cash from</b>	
<b>Operating Activities:</b>	
Operating Income	\$ 5,066,146
Changes in assets and liabilities:	
Increase in receivables	(224,260)
Increase in prepaid expenses	(11,681)
Increase in estimated liability for reported and unreported claims and claims adjustment expenses	1,559,000
Increase in accounts payable	7,897
Increase in advance member contributions	223,974
Increase in restricted buy-in receipts	<u>143,535</u>
	<u><u>\$ 6,764,611</u></u>

The accompanying notes to financial statements are an integral part of this statement.

## **NORTHERN PLAINS INSURANCE POOL NOTES TO FINANCIAL STATEMENTS**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Financial Reporting Entity**

The Northern Plains Insurance Pool (Pool) is a Joint Power Authority authorized by South Dakota Codified Law (SDCL) 1-24 et. Seq., SDCL 13-10-3 and 8-2-16. The Pool is governed by a Joint Powers Agreement and Bylaws (Bylaws) established on April 1, 2017. The primary purpose of the Pool is to jointly provide for the security and welfare of their eligible employees (and certain others covered through those eligible employees) by the establishment and maintenance of the group health or welfare plan or plans that are jointly sponsored by the governmental units in the Pool. To be eligible for membership, an applicant must be a governmental unit and a member of the Northern Plains Insurance Pool. There were 57 members of the Pool as of June 30, 2018, which were school districts in the State of South Dakota. The objective of the Pool is to formulate, develop, and administer on behalf of the member organizations, a program of health coverage through pooling risks, self-insurance and joint purchases of insurance. As a result, the Pool initiated a health benefit plan that began on July 1, 2017. In order to begin operations, the Pool utilized member buy-ins and member contributions paid in advance, in addition to resources accumulated in the members' prior arrangement which totaled \$603,800 as of July 1, 2017.

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

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

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

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

#### **Basis of Presentation**

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

## **NORTHERN PLAINS INSURANCE POOL NOTES TO FINANCIAL STATEMENTS**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

#### **Estimates**

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

#### **Deposits**

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

#### **Receivables**

Receivables are recorded based on amounts due from members and other third party payers, and amounts estimated to be received or recovered from reinsurers and other third party payers. The Pool evaluates the collectability of such receivables monthly based on the reinsurers, members or other third party payers’ financial condition, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

#### **Reinsurance**

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the development of the estimated liability for reported and unreported claims and claims adjustment.

#### **Income Taxes**

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

#### **Operating Revenues**

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

**NORTHERN PLAINS INSURANCE POOL  
NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Premium Deficiency**

A premium deficiency exists when the sum of expected claims costs (including an estimated liability for unreported claims) and all expected claims adjustment expenses, expected dividends, and policy acquisition costs exceed related unearned contributions. The Pool anticipates investment income in determining if a premium deficiency exists. As of June 30, 2018, there was no premium deficiency reserve recorded.

**Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses**

The coverage offered by the Pool is on the occurrence basis. Occurrence basis coverage provides for payment of claims that occur during the period of coverage regardless of when the claim is reported. The Pool has a provision that pertains to terminating members in each of its member participation agreements, whereby the Pool will only provide coverage for all eligible claims received and paid by its claims administrator prior to the date of the termination of coverage. There were no terminated members during the year ended June 30, 2018. 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.

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management of the Pool believes the estimated liability for reported and unreported claims and claims adjustment expenses is sufficient to cover the ultimate net cost of incurred claims, but such reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated. An independent actuary assisted management with the establishment of estimated claims liabilities for the year ended June 30, 2018.

**Net Position**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the financial statements. The Pool has no deferred inflows or outflows of resources.

Any surplus monies for a fiscal year in excess of the amount necessary to fulfill all obligations of the Pool for that year may be refunded to the members at the discretion of the Executive Board. No dividends were declared by the Executive Board during the fiscal year ended June 30, 2018. Discretionary dividends are reported as an expense of the Fund in the year declared.

**NORTHERN PLAINS INSURANCE POOL  
NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Net Position**

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

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

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

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

The Restricted Net Position is comprised of restricted member buy-ins paid by the members.

**Restricted Member Buy-ins**

Upon membership with the Pool, the new member is required to pay in an initial deposit that is estimated at one month premium. This deposit vests over a three year period. If the member terminates prior to completing an initial three year term, only the vested amount is returned to the member. The amount vests 30% after the first year of participation and 60% after the second year of participation. After three years of participation, the member will receive its deposit in full upon termination. The Pool has classified the member buy-ins amount as restricted which totaled \$1,861,451 as of June 30, 2018. As of July 1, 2018, \$555,046 of the member buy-in balance became vested for refund upon member termination.



**NORTHERN PLAINS INSURANCE POOL  
NOTES TO FINANCIAL STATEMENTS**

**2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

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

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

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

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

As of June 30, 2018, the Pool deposited \$6,000,000 into a deposit account with intentions to invest in accordance with the regulations noted in the previous paragraph. At the end of the year, the deposit account was only in a cash and cash equivalents account.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the Pool’s deposits may not be returned to it. The Pool does not have a deposit policy for custodial credit risk. At June 30, 2018, none of the Pool’s deposits in financial institutions were exposed to custodial credit risk.

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

Credit Risk – State law limits eligible investments for the Pool, as discussed above. The Pool has no investment policy that would further limit its investment choices. As of June 30, 2018, the Pool had no investments.

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

**NORTHERN PLAINS INSURANCE POOL  
NOTES TO FINANCIAL STATEMENTS**

**3. SERVICE AGREEMENTS**

Sanford Health Plan and South Dakota State Medical Holding Company, Inc., d/b/a DAKOTACARE and its subsidiary Dakota Administrative Services are engaged as the Pool's third party administrators (TPAs) to provide health claims administration services. The agreements provide that the TPAs be paid a claim administration fee based on various performance measurements including formulas based on per employee per month, hourly activity, and percentages of savings. Total fees incurred under the agreements was \$834,109. These fees are claims adjustment expenses in the statement of revenue, expenses, and changes in net position.

**4. REINSURANCE**

The Pool utilizes a reinsurance agreement to limit maximum loss and minimize exposures on larger risk. During the year ended June 30, 2018, the Pool utilized one reinsurance agreement for health (medical, including prescription drugs), whereby all members are covered under a reinsurance agreement with a \$225,000 deductible.

The Pool would be liable for any obligations that the reinsurance company are unable to meet under the reinsurance agreement. During the year ended June 30, 2018, claims expenses were reduced by \$1,211,845 due to recoveries from the reinsurance companies under contract.

**5. ESTIMATED LIABILITY FOR REPORTED AND UNREPORTED CLAIMS AND CLAIMS ADJUSTMENT EXPENSE**

The Pool establishes liabilities for both reported and unreported covered events, which includes estimates of both future payments of claims and related claims adjustments expenses. The following is a summary of the change in those aggregate liabilities for the year ended June 30, 2018.

Reported and unreported claims and claims adjustment expense liabilities at beginning of year	\$ -
Incurred claims and claims adjustment expenses provision for insured events of the current year	17,892,123
Payment for claims and claims adjustments expense attributable to insured events of the current year	16,333,123
Reported and unreported claims and claims adjustment expense liabilities at end of year	<u><u>\$ 1,559,000</u></u>

**NORTHERN PLAINS INSURANCE POOL  
NOTES TO FINANCIAL STATEMENTS**

**6. RELATED PARTY TRANSACTIONS**

The Pool is managed by a Board that consists of a representative from each member participating in the Pool. The Board has elected an Executive Board from its members who manage the operations of the Pool including engaging service providers to operate the Pool. The Executive Board is paid mileage to attend the meetings that are held quarterly. Total mileage paid during the year ended June 30, 2018 was \$3,447.

For the period July 1 through November 1, 2018, the Pool engaged Northeast Educational Services Cooperative to provide accounting services for the Pool. Northeast Education Services Cooperative is also a member of the Pool. Total fees paid under this engagement for the year ended June 30, 2018 were \$14,142.

**7. CONTRACTUAL OBLIGATIONS**

The Pool has engaged with Marsh & McLennan Agency LLC Company to provide consultation and risk management services of insurance programs and provide other services as requested by the Executive Board. For the year ended June 30, 2018, Marsh & McLennan Agency LLC Company was paid \$12 per covered employee per month for the twelve month period. Going forward, the Pool will pay commissions that are calculated as a percentage of the insurance premiums charged by insurers, or fees agreed upon with the Executive Board based on the services provided. Total fees paid under this contract for the year ended June 30, 2018 was \$317,004.

As a result of a prior engagement, the Pool had a onetime expense to finalize a post-employment payment of \$37,500 during the year ended June 30, 2018.

**8. SUBSEQUENT EVENT**

The Pool has evaluated for subsequent events through January 15, 2019, the date which the financial statements were available to be issued and is not aware of any events which would require recognition or disclosure in the financial statements.



**NORTHERN PLAINS INSURANCE POOL  
TEN-YEAR SCHEDULE OF CLAIMS DEVELOPMENT \*  
INFORMATION - UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>
Net earned member contributions and investment income:	
Earned	\$ 24,542,479
Ceded	<u>(1,211,845)</u>
Net earned	<u>23,330,634</u>
 Unallocated expenses	 18,264,488
 Estimated claims and expenses, end of policy year	
Incurred	17,058,014
Ceded	<u>-</u>
Net incurred	<u>17,058,014</u>
 Net paid (cumulative) as of:	
End of policy year	16,333,123
 Reestimated ceded claims and expenses	 -
 Reestimated net incurred claims and expenses:	
End of policy year	17,058,014
 Increase (decrease) in estimated net incurred claims and expenses from end of policy year	 -

\* The year ending June 30, 2018 is the Pool's first year of operations; therefore, only one year is reported. Ultimately, this schedule will show ten-years of accumulated data.

# GRANT AND WILLIAMS INC.

CERTIFIED PUBLIC ACCOUNTANTS

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with 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 financial statements of the governmental activities and the major fund of Northern Plains Insurance Pool as of June 30, 2018 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements and have issued our report thereon dated January 15, 2019.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Northern Plains Insurance 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we considered to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items #2018-001 through 2018-003 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northern Plains Insurance 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*.

### **Northern Plains Insurance Pool's Response to Findings**

Northern Plains Insurance Pool's response to the findings identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Pool's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 1-24-17.1, this report is a matter of public record and its distribution is not limited.

*Grant and Williams, Inc.*

Sioux Falls, South Dakota  
January 15, 2019

## **Part I: Findings Related to the Financial Statements:**

### **INTERNAL CONTROL DEFICIENCIES:**

#### **Finding Number 2018-001**

Segregation of Duties – A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues and expenditures, resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

*Criteria* – Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

*Condition* – The third party accountant has the ability to complete all of the duties related to revenue and disbursement transactions. Furthermore, the Pool does not have an internal control system designed to provide for the preparation of the financial statements being audited. As a result, the Pool requested the external auditors to prepare the journal entries to adjust the year-end financial statements and to draft the financial statements and related footnote disclosures as part of our regular audit services.

*Effect* – In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenues and expenditures. Lack of this segregation of duties could adversely affect the Pool's ability to record, process, summarize and report financial data consistent with management assertions. As a result, there was failure to comply with South Dakota State Statute 9-23-2.1. Furthermore, the Pool's internal control structure is not designed to provide for the preparation of financial statements being audited. AU-C Section 265 requires auditors to communicate this situation to the entity's Board of Directors as an internal control deficiency.

*Recommendation* – We recommend that the Pool's board be cognizant of this lack of segregation of duties for revenues and expenditures and attempt to provide compensating controls whenever and wherever possible and practical.

*Management's Response* – The Pool concurs with the finding and is aware of the risk associated with not generating year-end financial statements and making associated and necessary journal adjustments. The Pool's general accounting is being handled by a local professional accounting firm rather than being handled in-house. The Pool will explore having a local accounting firm prepare some of the reports now being handled by the auditor.

*Conclusion* – Response accepted.



## **Finding Number 2018-002**

### **Financial Statement Preparation**

*Criteria* – Proper controls over financial reporting include an adequate system for recording and processing entries material to the financial statements, as well as the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

*Condition* – The Pool's internal control system is designed to provide monthly financial statements. Due to time constraints for the third party accountant has not designed the annual financial statements in the accounting system. The Pool has requested that the auditors 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* – Inadequate controls over financial reporting of the Pool results in the likelihood that the Pool would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

*Recommendation* – While we recognize that this condition is not unusual for organization of your size, is important that you be aware of this condition for financial reporting purposes. The Board should continually be aware of the financial reporting of the Pool and changes in reporting requirements.

*Response* – The Pool concurs with the finding and is aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk. The Pool will explore having a local accounting firm prepare some of the reports now being handled by the auditor.

*Conclusion* – Response accepted.

## **Finding Number 2018-003**

### **Financial Reporting**

*Criteria* – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Pool's financial statements.

*Condition* – Material reclassifications were required to for the financial statement presentation. In addition, a material expense was recorded in the wrong period. Adjustments were subsequently made by the Pool to properly include these corrections in the financial statements. We also were not able to receive support for a requested expense transaction.

*Cause* – The Pool policies do not require and procedures have not been established to require independent review of year-end cut-off transactions to ensure the Pool's financial statements are accurate and reliable.

*Effect* – Lack of policies and procedures resulted in the Board and the third party accountant not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Pool's financial statements were necessary.

*Recommendation* – The Pool should implement procedures to ensure all receivables, payables, and expenses are identified and included in the Pool's financial statements.

*Response* – The Pool concurs with the finding and is aware of the risk associated with not conducting more rigorous and timely review of financial statements, including receivables and receipts. The Pool will work with a local accounting firm to develop procedures to address this issue.

*Conclusion* – Response accepted.