

**Key Insurance
& Benefits Services**


Memorandum

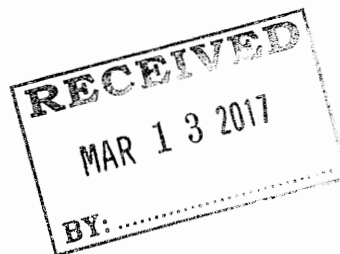
To: South Central Trust - Members
From: Key Insurance & Benefit Services
Date: March 1, 2017
Re: South Central Trust Independent Auditor's Report

Enclosed please find the Independent Auditor's Report from Hamilton & Musser, P.C. reviewed and approved at the full trust meeting on February 6, 2017. Included in the audit are the financial statements for the years ended June 30, 2016 & 2015.

Also enclosed please find a copy of the signed management representation letter dated February 6, 2017 from Kevin Benton, CPA to Hamilton & Musser, P.C.

Please review the report and if you have any questions or need further information, please contact us.

Thank you.



February 6, 2017

Hamilton & Musser, P.C.
Certified Public Accountants
176 Cumberland Parkway
Mechanicsburg, PA 17055

This representation letter is provided in connection with your audits of the financial statements of South Central Trust, which comprise the statements of net position available for plan benefits as of June 30, 2016 and 2015 and the related statements of changes in net position available for plan benefits, and statements of cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of February 6, 2017, the following representations made to you during your audit.

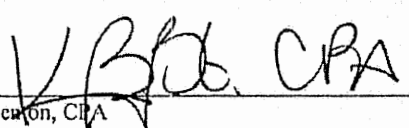
Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 31, 2016, including our responsibility for the preparation and fair presentation of the financial statements.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. We are in agreement with adjusting journal entries you have proposed, and they have been posted to the Company's accounts.

9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Material concentrations have been properly disclosed in accordance with U.S. GAAP.
11. Guarantees, whether written or oral, under which the Company is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

Information Provided

12. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
14. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
15. We have no knowledge of any fraud or suspected fraud that affects the Company and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
16. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements communicated by employees, former employees, analysts, regulators, or others.
17. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
18. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
19. We have disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which we are aware.
20. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.



Kevin Beaton, CPA

SOUTH CENTRAL TRUST
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015
AND
INDEPENDENT AUDITOR'S REPORT

HAMILTON & MUSSER, P.C.
Certified Public Accountants

SOUTH CENTRAL TRUST
Table of Contents
For the Years Ended June 30, 2016 and 2015

<u>CONTENTS</u>	<u>PAGE</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Net Position Available for Plan Benefits	3
Statements of Changes in Net Position Available for Plan Benefits	4
Statements of Cash Flows	5
Notes to Financial Statements	6-14



HAMILTON & MUSSER, P.C.

Certified Public Accountants • Consultants to Management

DAVID A. HAMILTON, CPA • BARRY E. MUSSER, CPA, CFP®
JAMES A. KRIMMEL, MBA, CPA, CFE, CFF • ROBERT D. MAST, CPA • WILLIAM P. ASHMAN, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and Participants
South Central Trust
Mechanicsburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of South Central Trust as of and for the years ended June 30, 2016 and 2015, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

Basis for Qualified Opinion

Management has elected to not include the Schedule of Claims Development. Accounting principles generally accepted in the United States of America require the Schedule of Claims Development be shown as required supplementary information. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Trust as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

February 6, 2017

Mechanicsburg, Pennsylvania

Hamilton & Munson, P.C.
Certified Public Accountants

SOUTH CENTRAL TRUST
 Statements of Net Position Available for Plan Benefits
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and Cash Equivalents	\$ 11,647,844	\$ 6,825,477
Investments (Note 2)	9,857,000	10,151,000
Accounts Receivable – Reinsurance Refund	605,417	624,379
Prepaid Expenses	<u>17,284</u>	<u>63,007</u>
Total Assets	<u>\$ 22,127,545</u>	<u>\$ 17,663,863</u>
Liabilities		
Accounts Payable	\$ 20,286	\$ -
Claims Incurred But Not Recorded And Claims Payable – Pooled Schools (Note 3)	1,129,568	830,679
Claims Incurred But Not Recorded And Claims Payable – Non-Pooled Schools (Note 3)	724,047	848,998
Refundable Reserves – Non-Pooled Schools (Note 4)	10,061,702	8,140,356
Deferred Revenue		
Dental (Note 5)	313,262	233,067
Flex Spending (Note 5)	<u>29,070</u>	<u>52,360</u>
Total Liabilities	12,277,935	10,105,460
Net Position Available for Plan Benefits	<u>9,849,610</u>	<u>7,558,403</u>
Total Liabilities and Net Position	<u>\$ 22,127,545</u>	<u>\$ 17,663,863</u>

The Accompanying Notes are an Integral Part of the Financial Statements

SOUTH CENTRAL TRUST
Statements of Changes in Net Position Available for Plan Benefits
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Member District Contributions	\$ <u>22,961,704</u>	\$ <u>22,455,159</u>
Total Operating Revenues	<u>22,961,704</u>	<u>22,455,159</u>
Operating Expenses:		
Benefit Payments on Behalf of Member Districts	19,326,736	19,878,174
Stop Loss Insurance	557,486	477,597
Administrative Expenses	719,737	862,255
Insurance	311	306
Consulting	49,997	49,963
Professional Fees	<u>32,276</u>	<u>32,573</u>
Total Operating Expenses	<u>20,686,543</u>	<u>21,300,868</u>
Operating Income	<u>2,275,161</u>	<u>1,154,291</u>
Non-Operating Revenues:		
Interest Income (Note 2)	<u>16,046</u>	<u>10,516</u>
Total Non-Operating Revenues	<u>16,046</u>	<u>10,516</u>
Increase in Net Position	2,291,207	1,164,807
Net Position Available for Plan Benefits, Beginning of Year	7,558,403	6,459,675
Prior Period Adjustment (Note 7)	<u>-</u>	<u>(66,079)</u>
Net Position Available for Plan Benefits, End of Year	<u>\$ 9,849,610</u>	<u>\$ 7,558,403</u>

The Accompanying Notes are an Integral Part of the Financial Statements

SOUTH CENTRAL TRUST
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Contributions Collected	\$ 42,511,758	\$ 42,303,202
Claims Paid	(35,488,591)	(36,133,515)
Loss Prevention	(1,029,264)	(871,986)
Insurance Premiums Paid	(592)	(589)
General Administration Fees Paid	<u>(1,497,763)</u>	<u>(1,832,355)</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>4,495,548</u>	<u>3,464,757</u>
Cash Flows from Investing Activities:		
Purchase (Net) of Investments	294,000	(6,683,325)
Interest Received	<u>32,819</u>	<u>19,432</u>
Net Cash and Cash Equivalents Provided (Used) by Investing Activities	<u>326,819</u>	<u>(6,663,893)</u>
Net Change in Cash and Cash Equivalents	4,822,367	(3,199,136)
Cash and Cash Equivalents, Beginning of Year	<u>6,825,477</u>	<u>10,024,613</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,647,844</u>	<u>\$ 6,825,477</u>
Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:		
Operating Income	\$ 2,275,161	\$ 1,154,291
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:		
(Increase) Decrease in Assets:		
Accounts Receivable – Reinsurance Refund	18,962	178,027
Prepaid Expenses	45,723	(43,177)
Increase (Decrease) in Liabilities:		
Accounts Payable	20,286	-
Refundable Reserves – Non-Pooled Schools	1,904,573	1,310,353
Claims Incurred but Not Recorded and Claims Payable	173,938	770,306
Deferred Revenue	<u>56,905</u>	<u>94,957</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>\$ 4,495,548</u>	<u>\$ 3,464,757</u>

The Accompanying Notes are an Integral Part of the Financial Statements

SOUTH CENTRAL TRUST
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

South Central Trust (the Trust) was organized in July 1995 to provide health and welfare, dental, vision, and other benefits for employees of the member school districts (Districts). The Trust's general objectives are to formulate, develop, and administer, on behalf of the Districts a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Board of Trustees is appointed by the Districts. Carlisle Area School District has been a member of the Trust since inception. Effective September 1, 1997, Big Spring School District became a member of the Trust; in 2005 Susquenita, Cumberland Perry Vo-Tech, CAIU, Camp Hill, and West Perry became members of the Trust; and in 2006 Mechanicsburg and East Pennsboro became members of the Trust.

The Trust has determined that it is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code. The Trust is also exempt from Pennsylvania corporate income taxes. In the event of dissolution of the Trust, the remaining assets would be distributed to the Districts.

The Trust provides claims administration and contract services for and on behalf of the Districts. Some Districts maintain all risk for the employee benefits provided through the Trust (claims-servicing pool), while others pool their risk (risk-sharing pool). This risk pooling includes the liability for payment of benefit claims paid by the Trust on behalf of the Districts, and those claims incurred but not paid and incurred but not reported during the benefit coverage period. The Trust contracts with third party benefit providers on behalf of the Districts and arranges for reinsurance coverage to limit the exposure to large losses on insured events.

Basis for Presentation – Fund Accounting

The Trust operates as a single proprietary fund; more specifically, as an enterprise fund. A proprietary fund is used to account for activities similar to those found in the private sector, where determination of net income is necessary or useful to sound financial administration. An enterprise fund is used because the services provided by the Trust's activities are provided to outside parties, the school district members of the Trust.

The accounts of the Trust are organized on the basis of claim years, each of which is accounted for separately because the composition of membership may change from year to year. The Trust applies restricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available. The Trust has no restricted net position.

Basis of Accounting:

Basis of accounting refers to the period in which revenue and expenditures are recognized in the accounts and reported in the financial statements, and relates to the timing of the measurement made, regardless of the measurement focus applied.

The Trust is considered to be a "public entity risk pool" for financial reporting purposes, and therefore reports under the accounting rules promulgated by the Government Accounting Standards Board (GASB). As a proprietary fund, the Trust employs the accrual basis of accounting wherein revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Trust follows the cost of services or "economic resources" measurement focus under which all assets and all liabilities associated with the activity of providing insurance services are included within the fund.

SOUTH CENTRAL TRUST
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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. Accordingly, actual results could differ from those estimates.

The most sensitive estimate affecting the financial statements is the calculation of claims incurred but not paid or recorded (IBNR). Management's estimates of these claims are based on actual run out and on past claims paid history. Even though management feels these estimates are proper, it is reasonably possible for additional claim losses to occur.

Risk Management:

The Trust is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; and injuries to employees. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverage for the years ended June 30, 2016 and 2015, respectively. Settlement amounts have not exceeded insurance coverage for the current or three prior years.

Significant Accounting Pronouncements:

Management has reviewed upcoming and pending accounting pronouncements and has determined that they are not applicable to the Trust.

Premium Deficiency Reserves:

Premium deficiency reserves are required for the amount of the anticipated losses, loss adjustment expenses, acquisition costs and maintenance costs that have not previously been expensed and are in excess of the recorded unearned premium reserve on existing policies and anticipated investment income. No premium deficiency reserve was recorded at June 30, 2016 and 2015, respectively.

Claims Liabilities:

The Trust establishes claim liabilities are based on estimates of the ultimate cost of: 1) claims (including future claim adjustment expenses) that have been reported but not settled, and 2) claims that have been incurred but not recorded. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in estimating claim liabilities does not necessarily result in exact amount.

Claim liabilities are estimated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. 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 reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. For financial statement purposes based on historical trends, actual claims recorded two months subsequent to year-end has been determined to be a reasonable estimation of claims incurred but not recorded.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of members and customers having outstanding balances and current relationships with them, it has concluded that losses on balances outstanding at year-end will be immaterial.

SOUTH CENTRAL TRUST
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments:

Investments are composed of certificates of deposit and are carried at cost.

GASB 72 requires an establishment of a hierarchy that ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices in active markets for identical assets and liabilities
- Level 2 – Directly or indirectly observable inputs other than Level 1 quoted prices
- Level 3 – Unobservable inputs not corroborated by market data

For investments with quoted market prices in active markets, the Trust uses the quoted market prices as fair values and includes those investments in Level 1 of the fair value hierarchy. When quoted market prices in active markets are not available, various pricing services are used to determine fair value of investments that are included in Level 2 of the fair value hierarchy. Level 3 represents financial assets whose fair value is determined based upon inputs that are unobservable and include the Trust's own determinations of the assumptions that a market participant would use in pricing the asset.

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible changes in risks in the near term would materially affect investment assets reported in the Statement of Net Position Available for Plan Benefits and Statement of Changes in Net Position Available for Plan Benefits.

Taxation:

The Internal Revenue Service has ruled that the income of the Trust is excludable from gross income and, therefore, exempt from taxation pursuant to Internal Revenue Code Section 115, which pertains to instrumentalities of state and local governments.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Trust, including whether the entity is exempt from income taxes. Management evaluated the tax positions taken and concluded that the Trust had taken no uncertain tax positions that require recognition or disclosure in the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. With few exceptions, the Trust is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before June 30, 2013.

Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, the Trust considers all liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents. At June 30, 2016 and 2015, respectively, cash and cash equivalents consisted primarily of money market accounts with brokers.

SOUTH CENTRAL TRUST
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 2 INVESTMENTS

Investments at fair value at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Certificates of Deposit	\$ <u>9,857,000</u>	\$ <u>10,151,000</u>
Total	\$ <u>9,857,000</u>	\$ <u>10,151,000</u>

Interest income for the years ended June 30, 2016 and 2015 was composed of:

	<u>2016</u>	<u>2015</u>
Interest – Pooled	\$ 16,046	\$ 10,516
Interest – Non-Pooled	<u>16,773</u>	<u>8,916</u>
Total	\$ <u>32,819</u>	\$ <u>19,432</u>

	<u>Cost Basis</u>	<u>6/30/2016</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level					
Debt Securities					
Certificates of Deposit	\$ <u>9,857,000</u>	\$ <u>9,858,979</u>	\$ -	\$ <u>9,858,979</u>	\$ -
Total Debt Securities	\$ <u>9,857,000</u>	\$ <u>9,858,979</u>	\$ -	\$ <u>9,858,979</u>	\$ -

	<u>Cost Basis</u>	<u>6/30/2015</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level					
Debt Securities					
Certificates of Deposit	\$ <u>10,151,000</u>	\$ <u>10,152,714</u>	\$ -	\$ <u>10,152,714</u>	\$ -
Total Debt Securities	\$ <u>10,151,000</u>	\$ <u>10,152,714</u>	\$ -	\$ <u>10,152,714</u>	\$ -

SOUTH CENTRAL TRUST
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 3 CLAIMS LIABILITY (RISK POOL)

The Trust is liable for both reported and unreported insured claims, which includes estimates of future payments of losses.

Unpaid claims consist of the following at June 30, 2016:

	Pooled Schools						
	Cumberland Perry AVTS	Susquenita School District	Camp Hill School District	Capital Area IU	West Perry School District	East Pennsboro School District	Total
Liabilities for Unpaid Claims, Beginning of Year	\$ 22,226	\$ 169,310	\$ 3,250	\$ 244,867	\$ 261,164	\$ 129,862	\$ 830,679
Incurred Claims Provision for Current Year Insured Events	779,310	2,994,299	1,654,903	5,830,945	4,106,874	3,207,773	18,574,104
Payments							
Claims & Adjustments for Current Year	(733,199)	(2,595,139)	(1,599,337)	(5,536,739)	(3,891,073)	(3,089,051)	(17,444,538)
Claims & Adjustments for Prior Year	<u>(22,227)</u>	<u>(169,310)</u>	<u>(3,250)</u>	<u>(244,867)</u>	<u>(261,164)</u>	<u>(129,859)</u>	<u>(830,677)</u>
Liabilities for Unpaid Claims, End of Year	<u>\$ 46,110</u>	<u>\$ 399,160</u>	<u>\$ 55,566</u>	<u>\$ 294,206</u>	<u>\$ 215,801</u>	<u>\$ 118,725</u>	<u>\$ 1,129,568</u>
				Non-Pooled Schools			
				Carlisle Area School District	Big Spring School District	Mechanicsburg Area School District	Total
Liabilities for Unpaid Claims, Beginning of Year				\$ 283,323	\$ 214,624	\$ 351,051	\$ 848,998
Incurred Claims Provision for Current Year Insured Events				6,848,854	3,074,055	6,143,148	16,066,057
Payments							
Claims & Adjustments for Current Year				(6,792,333)	(2,818,241)	(5,731,436)	(15,342,010)
Claims & Adjustments for Prior Year				<u>(283,323)</u>	<u>(214,624)</u>	<u>(351,051)</u>	<u>(848,998)</u>
Liabilities for Unpaid Claims, End of Year				<u>\$ 56,521</u>	<u>\$ 255,814</u>	<u>\$ 411,712</u>	<u>\$ 724,047</u>

SOUTH CENTRAL TRUST
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 3 CLAIMS LIABILITY (RISK POOL) – (CONTINUED)

Unpaid claims consist of the following at June 30, 2015:

	Pooled Schools						
	Cumberland Perry <u>AVTS</u>	Susquenita School <u>District</u>	Camp Hill School <u>District</u>	Capital Area IU	West Perry School <u>District</u>	East Pennsboro School <u>District</u>	<u>Total</u>
Liabilities for Unpaid Claims, Beginning of Year	\$ 95,851	\$ 233,374	\$ 56,364	\$ 241,042	\$ 137,265	\$ 145,475	\$ 909,371
Incurred Claims Provision for Current Year Insured Events	603,202	4,114,778	1,509,739	5,546,374	3,731,436	3,325,553	18,831,082
Payments							
Claims & Adjustments for Current Year	(580,977)	(3,945,469)	(1,506,488)	(5,301,507)	(3,470,272)	(3,195,692)	(18,000,405)
Claims & Adjustments for Prior Year	<u>(95,850)</u>	<u>(233,373)</u>	<u>(56,365)</u>	<u>(241,042)</u>	<u>(137,265)</u>	<u>(145,474)</u>	<u>(909,369)</u>
Liabilities for Unpaid Claims, End of Year	<u>\$ 22,226</u>	<u>\$ 169,310</u>	<u>\$ 3,250</u>	<u>\$ 244,867</u>	<u>\$ 261,164</u>	<u>\$ 129,862</u>	<u>\$ 830,679</u>
				Non-Pooled Schools			
				Carlisle Area School <u>District</u>	Big Spring School <u>District</u>	Mechanicsburg Area School <u>District</u>	<u>Total</u>
Liabilities for Unpaid Claims, Beginning of Year				\$ -	\$ -	\$ -	\$ -
Incurred Claims Provision for Current Year Insured Events				6,613,971	3,947,910	5,466,857	16,028,738
Payments							
Claims & Adjustments for Current Year				(6,330,648)	(3,733,286)	(5,115,806)	(15,179,740)
Claims & Adjustments for Prior Year				-	-	-	-
Liabilities for Unpaid Claims, End of Year				<u>\$ 283,323</u>	<u>\$ 214,624</u>	<u>\$ 351,051</u>	<u>\$ 848,998</u>

SOUTH CENTRAL TRUST
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 4 STATEMENT OF CHANGES IN REFUNDABLE RESERVE – NON-POOLED SCHOOLS

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Member District Contributions	\$ <u>19,474,187</u>	\$ <u>19,575,059</u>
Total Operating Revenues	<u>19,474,187</u>	<u>19,575,059</u>
Operating Expenses:		
Benefit Payments on Behalf of Member Districts	16,335,793	17,025,647
Stop Loss Insurance	471,778	394,389
Administrative Expenses	641,253	741,866
Insurance	281	283
Consulting	97,237	78,959
Professional Fees	<u>23,272</u>	<u>23,562</u>
Total Operating Expenses	<u>17,569,614</u>	<u>18,264,706</u>
Operating Income	<u>1,904,573</u>	<u>1,310,353</u>
Non-Operating Revenues:		
Interest Income (Note 2)	<u>16,773</u>	<u>8,916</u>
Total Non-Operating Revenues	<u>16,773</u>	<u>8,916</u>
Increase in Net Position	1,921,346	1,319,269
Refundable Reserve, Beginning of Year	8,140,356	6,945,478
Prior Period Adjustment (Note 7)	<u>-</u>	<u>(124,391)</u>
Refundable Reserve, End of Year	<u>\$ 10,061,702</u>	<u>\$ 8,140,356</u>

NOTE 5 DEFERRED REVENUE

The Trust provides administrative services for dental benefits on behalf of the risk sharing school districts that have dental plans administered by the Trust. The excess of premiums over all expenses related to dental claims and other expenses related to providing the administrative services is not part of the Trust agreement. If the Trust terminates the contract between the specific school districts for any reason, the Trust will refund the school districts the cumulative amount of premiums collected minus all expenses related to the dental benefits. The balances of \$313,262 and \$233,067 are reflected as deferred revenue at June 30, 2016 and 2015, respectively.

The Trust provides administrative services for flex plan benefits on behalf of the risk sharing school districts that have flex plan health plans administered by the Trust. The excess of premiums over all expenses related to health claims and other expenses related to providing the administrative services is not part of the Trust agreement. If the Trust terminates the contract between the specific school districts for any reason, the Trust will refund the school districts the cumulative amount of premiums collected minus all expenses related to these health benefits. The balances of \$29,070 and \$52,360 are reflected as deferred revenue at June 30, 2016 and 2015, respectively.

SOUTH CENTRAL TRUST
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 6 CONCENTRATED CREDIT RISK

Financial instruments that potentially subject the Trust to concentrations of credit risk consist principally of cash and cash equivalents held with financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Trust accounts at financial institutions exceed the insurance obtained through the FDIC from time to time throughout the year. Amount in excess of the FDIC limit were \$8,268,703 and 3,597,011 at June 30, 2016 and 2015, respectively, but was fully collateralized by the pledging bank's trust department as permitted by Act 72, at June 30, 2016 and 2015, respectively.

The Trust maintains a portion of its cash in money market accounts, which are not insured by the FDIC. The uninsured amount totaled \$3,119,052 and \$2,964,244 at June 30, 2016 and 2015, respectively, but \$3,068,721 and \$2,435,170 was collateralized by the pledging bank's trust department as permitted by Act 72, at June 30, 2016 and 2015, respectively.

The Trust maintains a portion of its cash in Certificate of Deposits, which are insured by the FDIC. The insured amount totaled \$9,857,000 and \$10,151,000 at June 30, 2016 and 2015, respectively.

Investments consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Certificates of Deposit	\$ <u>9,857,000</u>	\$ <u>10,151,000</u>
Total	\$ <u>9,857,000</u>	\$ <u>10,151,000</u>

Custodial Credit Risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Trust does not have a formal policy investment policy for custodial credit risk. The Trust's investments can not be classified by risk category because they are not evidenced by securities that exist in physical or book entry form.

Credit Risk – At June 30, 2016 and 2015, the ratings of the Trust's investments were:

	<u>2016</u>		<u>2015</u>	
	<u>Rating</u>	<u>Cost</u>	<u>Rating</u>	<u>Cost</u>
M&T Securities	Various	\$ 3,472,000	Various	\$ 2,976,000
PSDLAF	AAAm	6,385,000	AAAm	7,175,000

Interest Rate Risk – The Trust does not have a formal policy that limits investment maturities as means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2016 and 2015, the Trust's investment in money market funds and external investment pool had an average maturity of less than one year. The average maturity of the fixed income mutual fund is currently unavailable.

SOUTH CENTRAL TRUST
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 6 CONCENTRATED CREDIT RISK (CONTINUED)

External Investment Pool – The Trust also uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Trust funds. These funds are invested in the Pennsylvania Local Government Investment Trust (PLGIT), which separately issues audited financial statements that are available to the public.

The cost of the Trust’s position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool.

NOTE 7 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2015, management determined that \$124,391 of expense was incorrectly allocated between the Pooled and Non-Pooled for the year ended June 30, 2014. This correction is shown as an adjustment to the beginning net assets on the Statement of Changes in Net Position Available for Plan Benefits and Statement of Changes in Refundable Reserve – Non-Pooled Schools.

During the year ended June 30, 2015, it was determined that \$153,833, related to the excess of Dental Premium over all related dental expenses should have been recorded as a liability for the year ended June 30, 2014. This correction is shown as an adjustment to the beginning net assets on the Statement of Changes in Net Position Available for Plan Benefits for the year ended June 30, 2015.

During the year ended June 30, 2015, it was determined that \$36,637, related to the excess of Flex Plan Health Premium over all related Flex plan claim expenses should have been recorded as a liability for the year ended June 30, 2014. This correction is shown as an adjustment to the beginning net assets on the Statement of Changes in Net Position Available for Plan Benefits for the year ended June 30, 2015.

Refundable Reserve (Note 4)	\$ 124,391
Dental Premium Adjustment	(153,833)
Flex Plan Premium Adjustment	<u> (36,637)</u>
 Prior Period Adjustment	 \$ <u> (66,079)</u>

NOTE 8 SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 6, 2017, which is the date the financial statements were available to be issued.