



Financial Statements  
December 31, 2018 and 2017  
**South Dakota Public Assurance Alliance**

South Dakota Public Assurance Alliance

Table of Contents

December 31, 2018 and 2017

---

Independent Auditor’s Report .....	1
Management’s Discussion and Analysis – Unaudited .....	3
Financial Statements	
Statements of Net Position .....	9
Statements of Revenues, Expenses and Changes in Net Position .....	10
Statements of Cash Flows .....	11
Notes to Financial Statements .....	13
Required Supplementary Information - Unaudited	
Schedule of Claims Development Information – Casualty.....	25
Schedule of Claims Development Information – Property .....	26
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 <i>Government Auditing Standards</i> .....	27
Schedule of Findings and Responses .....	29



## Independent Auditor's Report

To the Board of Directors  
South Dakota Public Assurance Alliance  
Fort Pierre, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of South Dakota Public Assurance Alliance (SDPAA), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements which comprise SDPAA's basic financial statements.

### 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 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 South Dakota Public Assurance Alliance as of December 31, 2018 and 2017, and the results of its changes in net position and its cash flows for the years 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 on pages 3 through 8 and schedule of claims development information on pages 25 and 26 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 audits 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 our report dated July 31, 2019 on our consideration of South Dakota Public Assurance Alliance'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 the effectiveness of SDPAA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Public Assurance Alliance's internal control over financial reporting and compliance.



Fargo, North Dakota  
July 31, 2019

As management of the South Dakota Public Assurance Alliance (the Pool), we offer readers of the Pool's financial statements this narrative overview and analysis of the financial activities of the Pool for the years ended December 31, 2018 and 2017.

### **Financial Highlights**

- Total assets increased by \$4,486,876 and \$3,043,300 to \$44,933,086 and \$40,446,210 in 2018 and 2017, respectively.
- Cash and current investments increased by \$2,660,475 and increased by \$2,831,955 in 2018 and 2017, respectively. Non-current investments increased by \$2,059,363 and \$89,529 in 2018 and 2017, respectively.
- For 2018 and 2017, the Pool had operating income of \$3,582,934 and \$1,026,290, respectively.
- Net investment income was \$411,189 and \$541,211 in 2018 and 2017, respectively.
- The Board of Directors authorized the issuance of renewal, loss control, loss ratio and law enforcement credits against members' contributions and will use a portion of net position to fund these credits.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Pool's basic financial statements. The Pool operates as a single proprietary fund, more specifically as an enterprise fund, in accounting for members' participation in the public entity self-insurance pool. The Pool's basic financial statements are comprised of two components, the basic financial statements and the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### *Financial Statements*

The financial statements are designed to provide readers with a broad overview of the Pool's finances, in a manner similar to a private-sector business.

The statements of net position present information on all of the Pool's assets and liabilities, with the difference reported as net position. The Pool retains equity and the Board of Directors has designated an Operating Fund that is allocated to and designated as "Net Position—Unrestricted" in the Pool's statements of net position.

The statements of revenues, expenses and changes in net position present information on all of the Pool's revenues and expenses. Any excess or deficiency of revenues over expenses is reported as change in net position.

The statements of cash flows present information on cash flows provided by and used in activities. The activities are classified into one of four categories: operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The financial statements can be found on pages 9 through 12 of this report.

South Dakota Public Assurance Alliance  
Management's Discussion and Analysis – Unaudited  
December 31, 2018 and 2017

*Notes to the Financial Statements*

The notes provide additional information that is essential to obtain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 through 24 of this report.

*Other Information*

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information consisting of the Schedules of Claims Development Information. Supplementary information begins on page 25.

**Financial Analysis**

By far the largest portion of the Pool's assets (97% and 96%), as of December 31, 2018 and 2017, respectively, is its cash and investments. The Pool uses these assets primarily to pay claim liabilities.

	The Pool's Net Position				
	2018	2017	Change 2017-2018	2016	Change 2016-2017
<b>Assets</b>					
<b>Current Assets</b>					
Cash and investments	\$ 8,174,826	\$ 5,514,351	\$ 2,660,475	\$ 2,682,396	\$ 2,831,955
Receivables	486,908	720,691	(233,783)	652,551	68,140
Prepaid expenses	6,571	-	6,571	1,493	(1,493)
Total current assets	<u>8,668,305</u>	<u>6,235,042</u>	<u>2,433,263</u>	<u>3,336,440</u>	<u>2,898,602</u>
<b>Noncurrent Assets</b>					
Investments	35,185,094	33,125,731	2,059,363	33,036,202	89,529
Contributed surplus and member equity in NLC Mutual Insurance Company	1,010,603	975,956	34,647	942,953	33,003
Capital assets	69,084	109,481	(40,397)	87,315	22,166
Total noncurrent assets	<u>36,264,781</u>	<u>34,211,168</u>	<u>2,053,613</u>	<u>34,066,470</u>	<u>144,698</u>
<b>Total Assets</b>	<u>\$ 44,933,086</u>	<u>\$ 40,446,210</u>	<u>\$ 4,486,876</u>	<u>\$ 37,402,910</u>	<u>\$ 3,043,300</u>
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Losses and loss adjustment expense reserves	\$ 4,294,605	\$ 4,850,606	\$ (556,001)	\$ 3,354,001	\$ 1,496,605
Accounts payable and accrued expenses	19,677	43,705	(24,028)	29,387	14,318
Funds held from reinsurer for claim payments	1,950,639	-	1,950,639	-	-
Withdrawing member refund	9,617	-	9,617	-	-
Unearned contributions	3,341,354	3,287,542	53,812	3,083,533	204,009
Total current liabilities	<u>9,615,892</u>	<u>8,181,853</u>	<u>1,434,039</u>	<u>6,466,921</u>	<u>1,714,932</u>
<b>Noncurrent Liabilities</b>					
Losses and loss adjustment expense reserves	6,185,209	7,211,288	(1,026,079)	7,436,428	(225,140)
Unearned contributions, capitalization contributions	57,545	52,623	4,922	66,311	(13,688)
Total noncurrent liabilities	<u>6,242,754</u>	<u>7,263,911</u>	<u>(1,021,157)</u>	<u>7,502,739</u>	<u>(238,828)</u>
Total liabilities	<u>15,858,646</u>	<u>15,445,764</u>	<u>412,882</u>	<u>13,969,660</u>	<u>1,476,104</u>
<b>Net Position, Unrestricted</b>	<u>29,074,440</u>	<u>25,000,446</u>	<u>4,073,994</u>	<u>23,433,250</u>	<u>1,567,196</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 44,933,086</u>	<u>\$ 40,446,210</u>	<u>\$ 4,486,876</u>	<u>\$ 37,402,910</u>	<u>\$ 3,043,300</u>

- There was an increase in cash and investments of \$4,719,838 and \$2,921,484 in 2018 and 2017, respectively. During 2018, the current portion of cash and investments increased by \$2,660,475 while the long-term portion increased by \$2,059,363. During 2017, the current portion of cash and investments increased by \$2,831,955 while the long-term portion increased by \$89,529. In 2018 and 2017, the overall increase was due to operating and nonoperating revenues exceeding operating expenses.
- There was a decrease in receivables in 2018 of \$233,783 due to a \$335,046 decrease in contributions receivable while Reinsurance Recoverables increased \$44,129, Accrued Interest Receivable increased \$27,433, and Miscellaneous Accounts Receivable increased \$29,700. There was an increase in receivables in 2017 of \$68,140 due in large part to an increase in reinsurance recoverables of \$27,815 for paid losses and an increase of \$46,405 for accrued interest receivable.
- Prepaid expenses increased by \$6,571 and decreased by \$1,493 in 2018 and 2017, respectively. The increase for 2018 was due to the timing of various invoices being paid in advance for the next year, 2019, including worker's compensation coverage, professional memberships, and workshop fees. The decrease in 2017 was due to no prepaid invoices for 2017.
- Loss and loss adjustment expense reserves decreased by \$1,582,080 and increased by \$1,271,465 in 2018 and 2017, respectively. During 2018, the current portion of losses and loss adjustment expense reserves decreased by \$556,001, and the long-term portion decreased by \$1,026,079. During 2017, the current portion of losses and loss adjustment expense reserves increased by \$1,496,605, and the long-term portion decreased by \$225,140. The overall decrease in 2018 was due to claims activity occurring in the current year along with changes in estimates of insured events in prior years. The overall increase in 2017 was due to claims activity occurring in the current year along with changes in estimates of insured events in prior years.
- There was an increase in unrestricted net position of \$4,073,994 and \$1,567,196 in 2018 and 2017, respectively. These increases were a result of operating and nonoperating revenues exceeding operating expenses.

### Agency Activities

The Pool's operating revenues are generated through membership contributions, which are primarily reduced by reinsurance premiums ceded. Operating expenses are in two categories: losses and loss adjustment expenses and general and administrative expenses. The loss fund levels for payment of losses and loss adjustment expenses were established based on historical claim data. The Pool engages an independent actuary to assist it in determining loss fund levels and reserve adequacies.

For 2018, 2017, and 2016, respectively, the Pool had operating income of \$3,588,309, \$1,026,290, and \$1,975,221.

South Dakota Public Assurance Alliance  
Management's Discussion and Analysis – Unaudited  
December 31, 2018 and 2017

	The Pool's Operating Income				
	2018	2017	Change 2017-2018	2016	Change 2016-2017
Operating Revenues					
Contributions, net	\$ 11,657,063	\$ 11,667,655	\$ (10,592)	\$ 11,507,053	\$ 160,602
Reinsurance premiums ceded	(2,072,571)	(2,029,390)	(43,181)	(1,957,930)	(71,460)
Net Operating Revenues	<u>9,584,492</u>	<u>9,638,265</u>	<u>(53,773)</u>	<u>9,549,123</u>	<u>89,142</u>
Operating Expenses					
Losses and loss adjustment expenses incurred	4,525,951	7,005,375	(2,479,424)	6,108,389	896,986
General and administrative expenses	1,470,232	1,606,600	(136,368)	1,465,513	141,087
Total Operating Expenses	<u>5,996,183</u>	<u>8,611,975</u>	<u>(2,615,792)</u>	<u>7,573,902</u>	<u>1,038,073</u>
Operating Income	<u>\$ 3,588,309</u>	<u>\$ 1,026,290</u>	<u>\$ 2,562,019</u>	<u>\$ 1,975,221</u>	<u>\$ (948,931)</u>

- Membership contributions in 2018 and 2017 decreased by \$10,592 and increased by \$160,602 respectively. Contribution rates are calculated for General Liability by multiplying the members' operating expenditures and payroll by rates determined by population. Automobile Liability rates are calculated by multiplying the number of vehicles by the vehicle rate, which is based on the vehicle type. Automobile Physical Damage rates are calculated by multiplying the value of the vehicle by a related average rate. Property rates are calculated by multiplying the value of the related property by a rate based on construction and protection class.

The members' exposure base increased in 2018 and 2017 as listed below, and the average contribution rate was unchanged for 2018 and 2017.

	2018	2017
General Liability	0.0%	-4.0%
Auto Liability	1.0%	3.0%
Auto Physical Damage	4.0%	6.0%
Law Enforcement Liability	-4.0%	3.0%
Property	9.0%	5.0%

Membership contributions are recorded net of renewal, loss control, loss ratio and law enforcement contribution credits. During 2018 and 2017, these credits decreased by \$29,555 and decreased by \$129,678, respectively. The overall increase in member contributions was due to an increase in members and the renewal members' exposure base.

- In 2018 and 2017, reinsurance premiums ceded increased by \$43,181 and \$71,460, respectively, primarily due to a change in the Pool's liability and property reinsurance rates and changes in the value of reinsured assets.
- Loss and loss adjustment expenses decreased by \$2,479,424 and increased by \$896,986 in 2018 and 2017, respectively. These changes were primarily the result of changes in insured events of current and prior years as a result of new information becoming available.



- General and administrative costs decreased by \$136,368 and increased by \$141,087 in 2018 and 2017, respectively. These costs decreased in 2018 in large part due to a decrease in the annual maintenance fee for the new Pool Management Information software versus a larger initial start-up fee of \$177,930 paid in 2017. Subsequent years will be at \$82,432. The costs increased in 2017 in large part due to an increase for new Pool Management Information software of \$177,930 up from \$82,432 in 2016.

The Pool's nonoperating revenues and expenses are comprised of investment income and earned member equity from NLC Mutual Insurance Company.

	The Pool's Nonoperating Revenues and Expenses				
	2018	2017	Change 2017-2018	2016	Change 2016-2017
Nonoperating Revenues					
Net investment income	\$ 411,189	\$ 541,211	\$ (130,022)	\$ 430,404	\$ 110,807
Earned member equity, NLC Mutual Insurance Company	34,646	33,003	1,643	29,681	3,322
Other	498	-	498	-	-
<b>Total Nonoperating Revenues</b>	<b>446,333</b>	<b>574,214</b>	<b>(127,881)</b>	<b>460,085</b>	<b>114,129</b>
Nonoperating Expenses	-	-	-	-	-
<b>Net Nonoperating Revenues</b>	<b>\$ 446,333</b>	<b>\$ 574,214</b>	<b>\$ (127,881)</b>	<b>\$ 460,085</b>	<b>\$ 114,129</b>

Investment income decreased by \$130,022 and increased by \$110,807 in 2018 and 2017, respectively. The decrease in investment income in 2018 was due to a larger bond portfolio with a higher average yield. This was offset by the unrealized loss on the bond portfolio increasing due to interest rate changes as well as unrealized losses on certificates of deposit. The increase in 2017 was due to having a larger bond portfolio with a higher average yield. This was offset by the unrealized loss on the bonds increasing due to interest rate changes.

- Each member's equity account of NLC Mutual may be credited each year with the member's proportionate share of realized investment income earned by NLC Mutual. Effective December 31, 2006, the Pool withdrew from the property and casualty coverages of NLC Mutual. The Pool did not receive any allocations of NLC Mutual's investment income during 2008. During 2009, the Pool rescinded its withdrawal notice to NLC Mutual and increased its member equity in NLC Mutual by its proportionate share of allocated realized investment income and other NLC Mutual activity. The Pool recorded an equity allocation of \$34,646 and \$33,003 in 2018 and 2017, respectively.
- Capitalized contributions were \$ 51,372 and \$3,993 in 2018 and 2017, respectively. Capitalized distributions were \$12,021 and \$37,301 in 2018 and 2017, respectively.

South Dakota Public Assurance Alliance  
Management's Discussion and Analysis – Unaudited  
December 31, 2018 and 2017

	The Pool's Total Revenue and Expenses				
	2018	2017	Change 2017-2018	2016	Change 2016-2017
Operating Revenues	\$ 9,584,492	\$ 9,638,265	\$ (53,773)	\$ 9,549,123	\$ 89,142
Nonoperating Revenues	446,333	574,214	(127,881)	460,085	114,129
Total revenues	<u>10,030,825</u>	<u>10,212,479</u>	<u>(181,654)</u>	<u>10,009,208</u>	<u>203,271</u>
Operating Expenses	5,996,183	8,611,975	(2,615,792)	7,573,902	1,038,073
Nonoperating Expenses	-	-	-	-	-
Total expenses	<u>5,996,183</u>	<u>8,611,975</u>	<u>(2,615,792)</u>	<u>7,573,902</u>	<u>1,038,073</u>
Capitalization Contributions/(Distributions)	39,352	(33,308)	72,660	-	(33,308)
Change in Net Position	<u>4,073,994</u>	<u>1,567,196</u>	<u>2,506,798</u>	<u>2,435,306</u>	<u>(868,110)</u>
Net Position, End of Year	<u>\$ 29,074,440</u>	<u>\$ 25,000,446</u>	<u>\$ 4,073,994</u>	<u>\$ 23,433,250</u>	<u>\$ 1,567,196</u>

### Economic Factors and Next Year's Results

- In 2019, the Pool's revenue base will increase slightly due to several new members in the casualty and property programs, and with current members adding or expanding current coverages.
- In 2019, self-insured retentions will remain at \$500,000 for liability and at \$350,000 for property, except the self-insured retention will increase to \$550,000 on property for wind/hail damage. The overall reinsurance premium will significantly increase due to the hardening of the property reinsurance market as rates nationally have increased and coverage has become more difficult to obtain.
- The members will be offered renewal, loss control, loss ratio and law enforcement credits in 2019 as in 2018.
- Based upon the Actuarial Study as of December 31, 2018 and the hardening market for property reinsurance, rates will increase in 2019 for property coverage.

All of these factors were considered in preparing the Pool's budget for the 2019 year.

### Request for Information

This financial report is designed to provide a general overview of the Pool's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to David Pfeifle, Executive Director, South Dakota Public Assurance Alliance, 208 Island Drive, Fort Pierre, South Dakota 57532.

## South Dakota Public Assurance Alliance

Statements of Net Position  
December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,275,622	\$ 1,005,490
Receivables		
Contributions	12,339	347,385
Investment income	209,454	182,021
Miscellaneous	29,700	-
Reinsurance recoverable on paid losses	235,415	191,285
Prepaid expenses	6,571	-
Investments		
Certificates of deposit	2,106,442	1,725,885
Debt securities	3,792,762	2,782,976
Total current assets	8,668,305	6,235,042
Noncurrent Assets		
Investments		
Certificates of deposit	6,877,151	6,249,143
Debt securities	28,307,943	26,876,588
Contributed Surplus and Member Equity in NLC Mutual Insurance Company	1,010,603	975,956
Capital Assets, Net	69,084	109,481
	36,264,781	34,211,168
	\$ 44,933,086	\$ 40,446,210
Liabilities and Net Position		
Current Liabilities		
Losses and loss adjustment expense reserves, net	\$ 4,294,605	\$ 4,850,606
Accounts payable and accrued expenses	19,677	43,705
Funds held from reinsurer for claim payments	1,950,639	-
Withdrawing member refund	9,617	-
Unearned contributions	3,341,354	3,287,542
Total current liabilities	9,615,892	8,181,853
Noncurrent Liabilities		
Losses and loss adjustment expense reserves, net	6,185,209	7,211,288
Unearned contributions, capitalization contributions	57,545	52,623
Total noncurrent liabilities	6,242,754	7,263,911
Total liabilities	15,858,646	15,445,764
Net Position - Unrestricted	29,074,440	25,000,446
	\$ 44,933,086	\$ 40,446,210

South Dakota Public Assurance Alliance  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Contributions		
Operating, net of credits of \$851,980 and \$881,535 in 2018 and 2017, respectively	\$ 11,657,063	\$ 11,667,655
Reinsurance premiums ceded	(2,072,571)	(2,029,390)
Net Operating Revenues	9,584,492	9,638,265
Operating Expenses		
Losses and loss adjustment expenses incurred, net	4,525,951	7,005,375
General and administrative expenses		
Administrative expenses	1,470,232	1,606,600
Total general and administrative expenses	1,470,232	1,606,600
Total Operating Expenses	5,996,183	8,611,975
Operating Gain	3,588,309	1,026,290
Nonoperating Revenues		
Net investment income	411,189	541,211
Earned member equity, NLC Mutual Insurance Company	34,646	33,003
Other	498	-
Total nonoperating revenues	446,333	574,214
Income Before Capitalization Contributions and Distributions	4,034,642	1,600,504
Capitalization (distributions)/contributions, net	39,352	(33,308)
Change in Net Position	4,073,994	1,567,196
Net Position, Beginning of Year	25,000,446	23,433,250
Net Position, End of Year	\$ 29,074,440	\$ 25,000,446

## South Dakota Public Assurance Alliance

### Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Operating contributions received	\$ 12,016,221	\$ 11,877,743
Reinsurance premiums paid	(2,072,571)	(2,029,390)
Losses and loss adjustment expenses paid	(6,152,161)	(5,761,725)
Funds received from reinsurer for claim payments	1,950,639	-
General and administrative expenses paid	(1,450,817)	(1,551,351)
Net Cash Provided by Operating Activities	4,291,311	2,535,277
Noncapital Financing Activities		
Cumulative reserve contributions (distributed)/received	44,274	(46,996)
Capital and Related Financing Activities		
Purchase of capital assets	-	(61,604)
Net Cash from/(used for) Financing Activities	44,274	(108,600)
Cash Flows from Investing Activities		
Debt securities		
Purchases	(6,777,951)	(5,685,447)
Maturities and calls	2,000,000	2,150,000
Repayments on mortgage-backed securities	1,383,942	1,933,113
Proceeds from maturities of certificates of deposit	1,729,000	500,000
Purchases of certificates of deposit	(2,869,285)	(2,631,965)
Investment income received, net of investment expenses	1,468,841	777,937
Net Cash used in Investing Activities	(3,065,453)	(2,956,362)
Net Change in Cash and Cash Equivalents	1,270,132	(529,685)
Cash and Cash Equivalents, Beginning of Year	1,005,490	1,535,175
Cash and Cash Equivalents, End of Year	\$ 2,275,622	\$ 1,005,490

## South Dakota Public Assurance Alliance

### Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities		
Operating gain	\$ 3,588,309	\$ 1,026,290
Adjustments to reconcile operating gain to net cash from		
operating activities		
Depreciation	40,397	39,438
Increase (decrease) in assets		
Contributions receivable	335,046	6,079
Miscellaneous accounts receivable	(29,700)	-
Reinsurance recoverable on paid losses	(44,130)	(27,815)
Prepaid expenses	(6,571)	1,493
Increase (decrease) in liabilities		
Losses and loss adjustment expense reserves	(1,582,080)	1,271,465
Accounts payable and accrued expenses	(14,411)	14,318
Funds held from reinsurer for claim payments	1,950,639	-
Unearned contributions	53,812	204,009
	<u>\$ 4,291,311</u>	<u>\$ 2,535,277</u>
Net Cash Provided by Operating Activities		
Supplemental Disclosure of Noncash Investing and Financing Activity		
Net increase in the fair value of investments	<u>\$ 1,084,588</u>	<u>\$ 283,130</u>

**Note 1 - Nature of Business and Significant Accounting Policies**

**Reporting Entity**

The South Dakota Public Assurance Alliance (the Pool) is a local government risk-sharing pool whose 430 members are various governmental entities throughout South Dakota. The Pool is a separate legal entity pursuant to South Dakota Codified Law (SDCL) formed under the joint powers provisions as provided for in the laws. The Pool was formed in December 1986 for the primary purpose of managing and funding third-party claims against its members. An Intergovernmental Contract governs the operations of the Pool. The administration of the Intergovernmental Contract and management of the Pool are performed by a Board of Directors of not more than eleven 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.

**Nature of Business**

When the Pool began operations in 1987, net position was divided into an Operating Fund (OF) and a Cumulative Reserve Fund (CRF). The CRF consisted of “capitalization contributions” allocated from Members’ casualty contributions during their first six years of membership. The Board of Directors adopted a new Net Position Policy and amended the Intergovernmental Contract (IGC) with its Members during 2017 to combine these two equity accounts into one Operating Fund, eliminating the CRF effective January 1, 2018. This combined Operating Fund will be designated as “Net Position—Unrestricted” in the Financial Statements for future years.

The Pool’s Board of Directors also amended the IGC to establish a new formula for refunds of contributions when a Member withdraws from the Pool, which will better recognize a Member’s historic contributions and increase the likelihood of a refund for that withdrawing Member.

New members with casualty risk coverage provided by the Pool agree to make “capitalization contributions” to the Pool, which are allocated from their operating contributions during the first six years of their membership. Capitalization contributions are made in six annual installments according to the following schedule:

	<u>Percent of "Basis Rate"</u>
Initial contribution	100%
First anniversary	75%
Second anniversary	50%
Third anniversary	30%
Fourth anniversary	25%
Fifth anniversary	20%

Subsequent to the fifth anniversary, additional capitalization contributions are determined on an individual basis, based on detailed analysis of exposures and for a one (1) year period from their Risk Sharing Certificate effective date of coverage. An annual budget shall be prepared for the succeeding fiscal year which shall be used to assist in determining the annual rates for the Pool. The rates determined by the approval of the annual budget by the Board of Directors are used to determine the contributions for each member, based on their exposures.

“Basis rate” is that amount annually promulgated by the administrator of the Pool which is deemed necessary to provide the scope of coverage afforded to a member for the period of one year corresponding to the risk sharing certificate effective date, with due consideration to the member’s individual characteristics.

Members agree to continue membership for a period of not less than one full year. At the conclusion of such period, or anniversary thereof, a member who has given 60 days prior written notice to the Pool may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next annual budget is completed, the Pool will refund to the withdrawing member that percentage of those capitalization contributions made to the Pool under casualty risk coverage, according to the following schedule:

End of member's first full year	55%
End of member's second full year	50%
End of member's third full year	40%
End of member's fourth full year	35%
End of member's fifth full year	30%
End of member's sixth full year and thereafter	20%

All refunds shall be paid to the withdrawing member over a five-year term.

A member’s election to cease participation in the Pool for property risk coverage does not constitute a withdrawal under any other terms and conditions of the Intergovernmental Contract. Property risk coverage applies only to losses or claims, which occur prior to the termination date. All rights for reimbursement or any right to claim against the Pool terminate for property risk losses, which occur after the termination date.

Effective on the date of withdrawal, payments for all known and unknown casualty risk coverage claims and claims expense thereafter, become the sole responsibility of the withdrawing member without regard to whether a claim occurred or was reported prior to the withdrawal of the member’s participation in the Pool.

Effective on the date of withdrawal, payments for all property risk claims and claims expense which occurred thereafter, become the sole responsibility of the withdrawing member. The Pool will cover any property claim reported in a timely manner not to exceed sixty days after its occurrence, if the claim occurred during the period the risk sharing certificate was in effect and if coverage was otherwise available under the risk sharing certificate.



The Pool may, by a two-thirds (2/3) majority of the Board of Directors and by providing a member 60 days prior written notice, cancel that member's participation in the Pool and terminate its Intergovernmental Contract effective at the end of any risk sharing certificate year. Thereafter, it is the responsibility of the Pool to defend, settle and pay claims within the scope and limits set forth in the cancelled member's risk sharing certificate in effect on the date of the occurrence out of which such claim arose. This provision applies solely to claims, which occurred during a member's participation and evidenced by the member's risk sharing certificate. The cancelled member has the right, prior to the actual date of cancellation, to withdraw from the Pool by giving notice of such withdrawal. Electing to withdraw, the member shall be subject to the withdrawal provisions of the Intergovernmental Contract. Failing to elect to give notice of withdrawal, the cancelled member forfeits all rights to refund of those capitalization contributions made to the Pool by said cancelled member.

Any member failing to make payments when due as required by the Intergovernmental Contract will be terminated from the Pool effective on the date the payment was due and upon that effective date of termination all coverages and benefits thereunder cease. All known and unknown claims and claims expenses thereafter become the sole responsibility of the terminated member without regard to whether a claim occurred or was reported prior to the termination of the member's participation in the Pool. At the request of the terminated member, the Pool will continue to service all claims which have been reported to the Pool during the terminated member's period of participation so long as the terminated member shall promptly reimburse the Pool for all claims under the terms of this paragraph. The terminated member shall also forfeit all rights to any return of contributions and the Pool shall apply any or all of the terminated member's forfeited funds to the Operating Fund. If the member shall subsequently submit its payment, the Administrator may, in its discretion, reinstate such membership.

In the event that a claim or a series of claims exceeds the amount of risk sharing protection provided by the member's risk sharing certificate, or in the event that a claim or a series of claims should exhaust the Operating Fund and any reinsurance, then payment of valid claims shall be the sole and separate obligation of the individual member or members against whom the claim was made and perfected by litigation or settlement.

The Pool will terminate at such time as two-thirds (2/3) of the members vote for such termination. After a vote to terminate, the Board of Directors will commence with the orderly liquidation of the Pool's business and will complete the same as promptly as possible. During such period of liquidation, the Pool will continue to pay claims and losses incurred within the scope of coverage and pursuant to the risk sharing certificate until all funds of the Pool are exhausted. After payment of all claims and losses, any remaining funds held by the Pool will 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 Directors.

To the extent of the existence of funds in the Operating Fund, no member shall be responsible for any claim, claims, judgment or judgments against any other member or members. If upon termination of the Pool the remaining assets of the Pool are insufficient to satisfy indebtedness of the Pool (excluding claims or judgments against the members), such deficiency will be made up by assessments against members of the Pool on a pro rata basis determined by the Board of Directors.

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.

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. Estimates that are particularly susceptible to significant change in the near-term relate to the estimated liability for losses and loss adjustment expense reserves, amounts recoverable from reinsurers under excess of loss agreements, 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 are considered investments as all have been purchased with original maturities in excess of 90 days.

### **Contribution 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.

### **Investments**

Investment securities are accounted for under the provisions of GASB Statement No. 72. Under Statement No. 72, 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.

### **Funds Held from Reinsurer for Claim Payments**

The Pool received funds prior to the end of the year from their reinsurance company for claim payments that had not yet been made as of December 31, 2018. Management included \$1,950,639 on the Statement of Net Position related to these funds.

**Dividend and interest income are recognized when earned.**

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 Equity in NLC Mutual Insurance Company**

The Pool records its share of net increases in net position – unrestricted as income in the Pool's statement of revenues and expenses and adds such amounts to the investment account. See Note 6.

**Capital Assets**

Expenditures on property and equipment that are in excess of \$2,500 or significantly increase the life an asset are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset, which ranges from five to seven years and is computed using the straight-line method.

**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.

**Subrogation Recoverable**

The Pool evaluates the value of potential subrogation recoverable in determining the reserve for unpaid loss and loss adjustment expenses. The nature of the recoverable is such that the length of collections, coverage of the member, other parties with a bona fide claim vary greatly from case to case. For this reason, the Pool feels that although collections are probable they are not reasonable estimated and therefore are not accrued within the financial statements.

**Losses and Loss Adjustment Expense Reserves**

The Pool establishes loss reserves based upon estimates of the ultimate cost of losses, including future loss adjustment expenses related to claims that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the type of coverage involved.

The estimated liability for losses and loss 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.

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. Management estimated claims liabilities at December 31, 2018 and 2017, after consultation with an independent actuary.

### **Capitalization Contributions and Unearned Contributions**

Casualty capitalization contributions are accounted for under the provisions of GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools* (Interpretation No. 4). Under Interpretation No. 4, capitalization contributions to pools to which risk is transferred must be accounted for as revenue by initially recording such contributions as unearned contributions, then amortizing them into revenue over an appropriate period not to exceed ten years. Unearned contributions resulting from the application of Interpretation No. 4 are being amortized pro rata over a six-year period, the period over which capitalization contributions are allocated.

### **Operating Contributions and Unearned Contributions**

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

### **Income Taxes**

The Pool has received a private letter ruling from the Internal Revenue Service, dated December 7, 1987, to the effect that the Pool's income is excludable from gross income under Section 115 of the Internal Revenue Code and is thus exempt from federal income taxes. 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 had zero contribution deficiency in 2018 and 2017.

### **Subsequent Events**

The Pool has evaluated subsequent events through July 31, 2019, the date on which the financial statements were available to be issued.

**Note 2 - Deposits and Investments**

As of December 31, 2018, the Pool had the following investments:

Investment Type	Fair Value/ Carrying Value	Effective Duration (In Years)
U.S. Government corporations and agencies	\$ 27,338,842	1.93
Mortgage-backed securities	4,761,863	0.34
Certificates of deposit	8,983,593	0.47
	\$ 41,084,298	
Total weighted average		2.74

As of December 31, 2017, the Pool had the following investments:

Investment Type	Fair Value/ Carrying Value	Effective Duration (In Years)
U.S. Government corporations and agencies	\$ 23,620,637	2.07
Mortgage-backed securities	6,038,927	0.44
Certificates of deposit	7,975,028	0.46
	\$ 37,634,592	
Total weighted average		2.97

As of December 31, 2018 and 2017, the Pool had no investments which exceed 5% of the total investment portfolio.

Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Pools investments of U.S. Government corporations and agencies and mortgage-backed securities are measured at Level 2 inputs.

The fair value of investments decreased by \$949,754 and \$283,130 and during 2018 and 2017, respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year.

**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.

**Interest Rate Risk**

The Pool's investment policy provides for the avoidance of undue concentration in the maturity of bonds in the portfolio and the effective duration of the portfolio is limited to no longer than four years. The investment policy also provides that at least \$300,000 or more of investments should mature within 20 days or less.

**Credit Risk**

The Pool's investment policy provides that all investments shall be federally insured, senior debt or collateralized obligations of United States Government agencies, or meet the requirements of SDCL 4-5-6, which allows investments in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. The Pool has no investment policy that would further limit its investment choices other than as described in its investment footnote disclosures. The credit rating obtained by Standard & Poor's or Moody's for all U.S. Government corporations and agencies and mortgage-backed securities held by the Pool is AAA as of December 31, 2018 and 2017.

**Concentration of Credit Risk**

The Pool's investment policy provides that securities issued directly by or indirectly guaranteed by the United States Government (including, but not limited to U.S. Treasury securities and securities issued by or guaranteed by the Government National Mortgage Association) may be owned without limit. The aggregate market value of all unsecured obligations issued by or guaranteed by government sponsored enterprises which are not direct or indirect obligations of the U.S. Treasury (including, but not limited to Fannie Mae, Freddie Mac, and the Federal Home Loan Bank) is limited to 60% of the market value of the portfolio. This limitation does not apply to collateralized obligations guaranteed by these government sponsored enterprises (including, but not limited to mortgage-backed pass-through securities). The aggregate market value of all certificates of deposit owned in the portfolio cannot exceed 75% of the market value of the portfolio. The aggregate market value of all corporate and municipal bonds rated A or better by Moody's Investment Service or equivalent rating by another recognized service cannot exceed 25% of the market value of the portfolio. The use of leverage and direct investment in derivative securities is prohibited.

**Note 3 - Capital Assets**

Capital assets as of December 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Office equipment	128,786	128,787
Vehicles	78,924	78,924
	<u>207,710</u>	<u>207,711</u>
Less accumulated depreciation	<u>(138,626)</u>	<u>(98,230)</u>
Capital assets	<u>\$ 69,084</u>	<u>\$ 109,481</u>

**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 and 2017:

	<u>2018</u>	<u>2017</u>
Unpaid losses and loss adjustment expense reserves, beginning of year	\$ 12,061,894	\$ 10,790,429
Less reinsurance recoverable, beginning of year	<u>(191,285)</u>	<u>(163,470)</u>
Net unpaid losses and loss adjustment expense reserves, beginning of year	<u>11,870,609</u>	<u>10,626,959</u>
Net incurred losses and loss adjustment expenses		
Current year provision	7,359,919	7,434,272
Decrease in prior years' provisions	<u>(2,833,968)</u>	<u>(428,897)</u>
Net provision	<u>4,525,951</u>	<u>7,005,375</u>
Net losses and loss adjustment expense payments attributable to		
Current year	(2,980,559)	(2,214,453)
Prior years	<u>(3,171,602)</u>	<u>(3,547,272)</u>
Net payments	<u>(6,152,161)</u>	<u>(5,761,725)</u>
Net unpaid losses and loss adjustment expense reserves, end of year	10,244,399	11,870,609
Plus reinsurance recoverable at end of year	<u>235,415</u>	<u>191,285</u>
Unpaid losses and loss adjustment expense reserves, end of year	<u>\$ 10,479,814</u>	<u>\$ 12,061,894</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 \$2,834,000 and \$429,000 in 2018 and 2017, respectively. 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 has a casualty reinsurance agreement in which the Pool retains casualty risks up to \$500,000 per claim in 2018 and 2017, and claims exceeding the retention are reinsured after the \$250,000 corridor deductible is met in amounts ranging from \$500,000 to \$5,500,000 of loss per occurrence in both 2018 and 2017.

The Pool also has property reinsurance in which the Pool retains property risks up to \$350,000 per claim in an amount not to exceed \$500,000,000 per occurrence in 2018 and 2017.

The Pool would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. Reinsurance amounts of \$6,491,938 and \$598,020 were deducted from the estimated liability for losses and loss adjustment expense reserves in 2018 and 2017, respectively. Recovery amounts of \$3,398,045 and \$1,411,579 from reinsurance, subrogation, and deductibles were deducted from losses and loss adjustment expenses incurred. During 2018 and 2017, the Pool ceded \$2,072,571 and \$2,029,390 of contributions to the reinsurance companies 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 - NLC Mutual Insurance Company**

In prior years, the Pool had property and casualty reinsurance coverages with NLC Mutual Insurance Company (NLC Mutual) and has since replaced these coverages with other companies. Within each line of business of NLC Mutual, each member pool has a separate equity account that is comprised of the member's contributed surplus and member equity. Contributed surplus requirements are determined as specified in NLC Mutual's by-laws.

Each NLC Mutual member's equity account may be credited each year with the member's proportionate share of realized investment income earned by NLC Mutual during the prior fiscal year based on the total of all members' equity accounts at NLC Mutual's discretion. Further, each member's equity account may also be credited (or debited) from time to time based on NLC Mutual's financial condition, underwriting results, reserve adjustments, and such other factors as NLC Mutual may reasonably consider in order to achieve fair and equitable results for NLC Mutual.

At the sole discretion of each NLC Mutual pool member, an election may be made to withdraw its total equity from any line of business reinsured by giving written notice to NLC Mutual. The effective date upon which such equity may be withdrawn shall be determined by the withdrawing member based on a distribution election of no sooner than two years at 20% of equity and no longer than ten years at 100% of equity. This distribution of equity also requires the approval of NLC Mutual's Board of Directors and the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration.



**Note 7 - Member Contributions**

Renewal, loss control, loss ratio and law enforcement credits are reported as a reduction of member contributions earned in the year in which the member renews. Total member contribution credits for the years ended December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Renewal credits		
Casualty	\$ 82,365	\$ 29,308
Property	53,676	20,072
Loss control credits		
Casualty	190,793	208,639
Property	133,267	141,449
Loss ratio credits		
Casualty	183,052	238,642
Property	150,054	185,039
Law enforcement credits		
Casualty	<u>58,773</u>	<u>58,386</u>
Total credits	<u>\$ 851,980</u>	<u>\$ 881,535</u>

**Note 8 - Commitments**

The Pool incurs operating expenses under various short and long-term contractual agreements. The future minimum payments under contractual agreements are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 698,488
2020	310,929
2021	311,419
2022	321,944
2023	26,019
Thereafter	2,212

**Note 9 - Related Party Transactions**

The South Dakota Municipal League (SDML) is the endorsing organization of the Pool and a related party. The following summarizes related party activity for years ending December 31, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Salaries and benefits	881,762	881,918
Support services	126,146	121,378
Endorsement fees	<u>59,708</u>	<u>58,975</u>
	<u>\$ 1,067,616</u>	<u>\$ 1,062,271</u>



Required Supplementary Information  
December 31, 2018 and 2017

## South Dakota Public Assurance Alliance

South Dakota Public Assurance Alliance  
Schedule of Claims Development Information – Casualty  
For the Ten Years Ended December 31, 2018

	*2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Earned Member Contributions and Investment Income										
Earned	\$ 6,711,349	\$ 6,792,795	\$ 6,668,381	\$ 6,796,098	\$ 6,556,760	\$ 6,585,671	\$ 7,246,098	\$ 7,070,490	\$ 7,523,785	\$ 7,617,312
Ceded	916,388	877,199	887,306	877,692	876,308	867,672	650,386	1,090,089	1,176,754	589,677
Net earned	5,794,961	5,915,596	5,781,075	5,918,406	5,680,452	5,717,999	6,595,712	5,980,401	6,347,031	7,027,635
Unallocated Expenses	1,246,186	1,322,324	1,144,251	1,191,760	1,201,561	1,310,711	1,537,387	977,085	871,357	877,536
Estimated Claims and Expenses, End of Policy Year										
Incurred	4,544,518	4,733,329	4,572,530	6,132,104	4,693,683	2,778,717	4,757,000	4,392,000	4,691,000	4,545,000
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	4,544,518	4,733,329	4,572,530	6,132,104	4,693,683	2,778,717	4,757,000	4,392,000	4,691,000	4,545,000
Net Paid (Cumulative) as of:										
End of policy year	1,268,325	959,851	666,347	411,666	528,191	690,369	821,756	788,959	931,019	1,019,351
One year later	2,079,245	1,959,028	1,463,227	710,959	1,063,843	1,278,609	1,531,140	1,349,498	1,382,539	-
Two years later	2,311,501	2,485,549	1,652,851	1,087,257	1,969,937	1,938,332	2,296,045	1,860,986	-	-
Three years later	3,524,990	3,367,714	1,916,892	1,192,105	2,406,801	2,340,707	2,749,031	-	-	-
Four years later	4,135,452	3,881,664	1,971,021	1,465,587	2,486,049	2,654,463	-	-	-	-
Five years later	4,302,985	4,656,501	2,319,780	1,530,503	2,556,808	-	-	-	-	-
Six years later	4,335,278	4,998,409	2,319,530	1,568,636	-	-	-	-	-	-
Seven years later	4,335,621	5,071,857	2,320,220	-	-	-	-	-	-	-
Eight years later	4,336,063	5,062,708	-	-	-	-	-	-	-	-
Nine years later	4,339,279	-	-	-	-	-	-	-	-	-
Estimated Ceded Claims and Expenses	75,000	-	-	-	-	-	-	-	-	-
Estimated Net Incurred Claims and Expenses										
End of policy year	4,733,329	4,572,530	6,132,104	4,693,683	2,778,717	4,757,000	4,392,000	4,273,000	4,691,000	4,545,000
One year later	4,302,171	4,351,000	3,736,000	2,821,044	2,869,114	3,414,000	4,036,000	3,447,000	3,329,000	-
Two years later	4,263,000	4,589,000	2,943,000	1,340,249	3,600,000	3,373,000	4,309,000	3,288,000	-	-
Three years later	4,638,000	5,242,065	2,376,517	1,488,325	3,282,705	3,227,000	3,534,000	-	-	-
Four years later	4,661,512	5,183,610	2,452,983	1,612,325	3,079,104	3,019,000	-	-	-	-
Five years later	4,426,358	5,347,000	2,319,780	1,565,972	3,012,405	-	-	-	-	-
Six years later	4,438,908	5,234,767	2,319,530	1,568,636	-	-	-	-	-	-
Seven years later	4,351,359	5,073,619	2,325,292	-	-	-	-	-	-	-
Eight years later	4,351,314	5,063,534	-	-	-	-	-	-	-	-
Nine years later	4,339,279	-	-	-	-	-	-	-	-	-
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy										
	(394,050)	491,004	(3,806,812)	(3,125,047)	233,688	(1,738,000)	(858,000)	(985,000)	(1,362,000)	-

\* Amounts related to 2009 and prior years were derived from amounts presented in audited financial statements from the Pool's previous auditors, and such information has not been modified in this table.

South Dakota Public Assurance Alliance  
Schedule of Claims Development Information – Property  
For the Ten Years Ended December 31, 2018

	*2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Earned Member Contributions and Investment Income										
Earned	\$ 2,903,096	\$ 2,879,123	\$ 3,295,427	\$ 3,697,628	3,721,604	\$ 3,964,841	\$ 4,479,187	\$ 4,301,919	\$ 4,505,582	\$ 4,637,146
Ceded	459,297	455,792	476,679	498,538	656,742	820,287	988,548	693,363	781,176	1,482,893
Net earned	<u>2,443,799</u>	<u>2,423,331</u>	<u>2,818,748</u>	<u>3,199,090</u>	<u>3,064,862</u>	<u>3,144,554</u>	<u>3,490,639</u>	<u>3,608,556</u>	<u>3,724,406</u>	<u>3,154,253</u>
Unallocated Expenses	656,029	611,229	666,432	590,760	641,663	699,866	823,925	1,011,447	500,023	491,097
Estimated Claims and Expenses, End of Policy Year										
Incurred	2,175,059	1,456,943	1,675,317	1,295,791	1,862,758	1,243,414	1,356,676	2,323,530	2,743,272	2,814,919
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	<u>2,175,059</u>	<u>1,456,943</u>	<u>1,675,317</u>	<u>1,295,791</u>	<u>1,862,758</u>	<u>1,243,414</u>	<u>1,356,676</u>	<u>2,323,530</u>	<u>2,743,272</u>	<u>2,814,919</u>
Net Paid (Cumulative) as of:										
End of policy year	813,109	1,179,775	737,072	977,647	917,908	821,433	1,652,106	1,289,926	1,283,434	1,961,208
One year later	1,087,218	1,362,496	1,171,941	1,432,013	2,062,292	1,112,646	2,078,406	1,941,310	2,086,499	-
Two years later	993,819	1,373,126	1,185,797	1,448,588	2,285,901	1,113,339	2,094,797	1,984,312	-	-
Three years later	1,000,573	1,373,807	1,500,177	1,448,210	2,293,508	1,113,311	2,100,646	-	-	-
Four years later	1,000,644	1,374,383	1,507,860	1,448,210	2,293,739	1,113,585	-	-	-	-
Five years later	1,000,644	1,374,980	1,507,860	1,448,210	2,293,891	-	-	-	-	-
Six years later	1,000,644	1,376,669	1,507,860	1,448,210	-	-	-	-	-	-
Seven years later	1,000,644	1,376,870	1,508,190	-	-	-	-	-	-	-
Eight years later	1,000,644	1,376,870	-	-	-	-	-	-	-	-
Nine years later	1,000,644	-	-	-	-	-	-	-	-	-
Estimated Ceded Claims and Expenses	-	-	-	-	-	-	-	-	-	-
Estimated Net Incurred Claims and Expenses										
End of policy year	2,175,059	1,456,943	1,675,317	1,862,758	1,862,758	1,356,676	2,323,530	2,355,190	2,743,272	2,814,919
One year later	1,216,535	1,427,150	1,692,646	1,466,281	2,349,000	1,151,000	2,127,371	2,027,622	2,327,695	-
Two years later	1,028,322	1,383,000	1,646,894	1,448,588	2,321,189	1,120,032	2,111,008	2,029,000	-	-
Three years later	1,004,261	1,381,000	1,519,796	1,448,210	2,296,000	1,118,571	2,107,638	-	-	-
Four years later	1,000,644	1,378,305	1,507,860	1,448,210	2,297,000	1,119,167	-	-	-	-
Five years later	1,000,644	1,374,980	1,507,860	1,448,210	2,295,358	-	-	-	-	-
Six years later	1,000,644	1,388,749	1,507,860	1,448,210	-	-	-	-	-	-
Seven years later	1,000,644	1,376,870	1,508,190	-	-	-	-	-	-	-
Eight years later	1,000,644	1,376,870	-	-	-	-	-	-	-	-
Nine years later	1,000,644	-	-	-	-	-	-	-	-	-
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy										
	(1,174,415)	(80,073)	(167,127)	(414,548)	432,600	(237,509)	(215,892)	(326,190)	(415,577)	-

\* Amounts related to 2009 and prior years were derived from amounts presented in audited financial statements from the Pool's previous auditors, and such information has not been modified in this table.



**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 Directors  
South Dakota Public Assurance Alliance  
Fort Pierre, 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 South Dakota Public Assurance Alliance (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 July 31, 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. As discussed below, we did identify a deficiency in internal control, 2018-A in the accompanying schedule of findings and response, which we consider to be a material weakness.

**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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Fargo, North Dakota  
July 31, 2019

**2018-A      Preparation of Financial Statements and Audit Entries**  
**Material Weakness**

*Criteria* – A well designed 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 audit 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 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 SDPAA 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. SDPAA management notes that this practice is not unusual for organizations of our size. SDPAA’s accounting services provider performs SDPAA’s 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. SDPAA management has concluded that it does not believe the costs of employing staff to stay current with accounting standards that may affect the annual financial statement reporting are outweighed by the Members’ benefit of using those resources elsewhere in the organization.