



Financial Statements
December 31, 2016 and 2015

South Dakota Public Assurance Alliance

South Dakota Public Assurance Alliance

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December 31, 2016 and 2015

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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, which comprise the statements of net position as of December 31, 2016 and 2015, 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.

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, 2016 and 2015, and the results of its operations 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2016 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 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
April 18, 2016

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, 2016 and 2015.

Financial Highlights

- Total assets increased by \$2,495,473 and \$2,016,823 to \$37,402,910 and \$34,907,437 in 2016 and 2015, respectively.
- Cash and current investments decreased by \$329,222 and increased by \$810,995 in 2016 and 2015, respectively. Non-current investments increased by \$3,069,696 and \$752,709 in 2016 and 2015, respectively.
- For 2016 and 2015, the Pool had operating income of \$1,975,221 and \$2,591,986, respectively.
- Net investment income was \$430,404 and \$404,242 in 2016 and 2015, 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 and a Cumulative Reserve Fund, the sum of these comprise 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.

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.

South Dakota Public Assurance Alliance
Management's Discussion and Analysis – Unaudited
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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 (95% and 94%), as of December 31, 2016 and 2015, respectively, is its cash and investments. The Pool uses these assets primarily to pay claim liabilities.

	The Pool's Net Position				
	2016	2015	Change 2015-2016	2014	Change 2014-2015
Assets					
Current Assets					
Cash and investments	\$ 2,682,396	\$ 3,011,618	\$ (329,222)	\$ 2,200,623	\$ 810,995
Receivables	652,551	890,154	(237,603)	336,716	553,438
Prepaid expenses	1,493	241	1,252	122,741	(122,500)
Total current assets	<u>3,336,440</u>	<u>3,902,013</u>	<u>(565,573)</u>	<u>2,660,080</u>	<u>1,241,933</u>
Noncurrent Assets					
Investments	33,036,202	29,966,506	3,069,696	29,213,797	752,709
Contributed surplus and member equity in NLC Mutual Insurance Company	942,953	913,272	29,681	884,524	28,748
Capital assets	87,315	125,646	(38,331)	132,213	(6,567)
Total noncurrent assets	<u>34,066,470</u>	<u>31,005,424</u>	<u>3,061,046</u>	<u>30,230,534</u>	<u>774,890</u>
Total Assets	<u>\$ 37,402,910</u>	<u>\$ 34,907,437</u>	<u>\$ 2,495,473</u>	<u>\$ 32,890,614</u>	<u>\$ 2,016,823</u>
Liabilities and Net Position					
Current Liabilities					
Losses and loss adjustment expense reserves	\$ 3,354,001	\$ 4,082,193	\$ (728,192)	\$ 3,560,802	\$ 521,391
Accounts payable and accrued expenses	29,387	3,149	26,238	833	2,316
Unearned contributions	3,083,533	3,176,368	(92,835)	3,382,851	(206,483)
Total current liabilities	<u>6,466,921</u>	<u>7,261,710</u>	<u>(794,789)</u>	<u>6,944,486</u>	<u>317,224</u>
Noncurrent Liabilities					
Losses and loss adjustment expense reserves	7,436,428	6,666,406	770,022	8,049,823	(1,383,417)
Unearned contributions, capitalization contributions	66,311	73,287	(6,976)	99,402	(26,115)
Total noncurrent liabilities	<u>7,502,739</u>	<u>6,739,693</u>	<u>763,046</u>	<u>8,149,225</u>	<u>(1,409,532)</u>
Total liabilities	<u>13,969,660</u>	<u>14,001,403</u>	<u>(31,743)</u>	<u>15,093,711</u>	<u>(1,092,308)</u>
Net Position, Unrestricted	<u>23,433,250</u>	<u>20,906,034</u>	<u>2,527,216</u>	<u>17,796,903</u>	<u>3,109,131</u>
Total Liabilities and Net Position	<u>\$ 37,402,910</u>	<u>\$ 34,907,437</u>	<u>\$ 2,495,473</u>	<u>\$ 32,890,614</u>	<u>\$ 2,016,823</u>

- There was an increase in cash and investments of \$2,740,474 and \$1,563,704 in 2016 and 2015, respectively. During 2016, the current portion of cash and investments decreased by \$329,222 while the long-term portion increased by \$3,069,696. During 2015, the current portion of cash and investments increased by \$810,995 while the long-term portion increased by \$752,709. In 2016 and 2015, the overall increase was due to operating and nonoperating revenues exceeding operating expenses.
- There was a decrease in receivables in 2016 of \$237,603 due in large part to a decrease in reinsurance recoverables of \$444,566 for paid losses and an increase of \$217,585 for member contributions. There was an increase in receivables in 2015 of \$553,438 due in large part to reinsurance recoverables for paid losses and partially for member contributions.
- Prepaid expenses increased by \$1,252 and decreased by \$122,500 in 2016 and 2015, respectively. The increase in 2016 was due to the inflationary increases in the invoices being prepaid. The decrease in 2015 was due to a minimal number of 2016 invoices being prepaid in 2015.
- Loss and loss adjustment expense reserves increased by \$41,830 and decreased by \$862,026 in 2016 and 2015, respectively. During 2016, the current portion of losses and loss adjustment expense reserves decreased by \$1,251,356, and the long term portion increased by \$1,293,186. During 2015, the current portion of losses and loss adjustment expense reserves increased by \$521,391, and the long term portion decreased by \$1,383,417. The overall increase in 2016 was due to claims activity occurring in the current year along with changes in estimates of insured events in prior years. The decrease in 2015 was due to the settlement and payment of older claims.
- There was an increase in unrestricted net position of \$2,527,216 and \$3,109,131 in 2016 and 2015, 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 2016, 2015, and 2014, respectively, the Pool had operating income of \$1,975,221, \$2,591,986, and \$2,111,535.

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	The Pool's Operating Income				
	2016	2015	Change 2015-2016	2014	Change 2014-2015
Operating Revenues					
Contributions, net	\$ 11,507,053	\$ 10,884,011	\$ 623,042	\$ 10,831,701	\$ 52,310
Reinsurance premiums ceded	<u>(1,957,930)</u>	<u>(1,783,452)</u>	<u>(174,478)</u>	<u>(1,638,934)</u>	<u>(144,518)</u>
Net Operating Revenues	<u>9,549,123</u>	<u>9,100,559</u>	<u>448,564</u>	<u>9,192,767</u>	<u>(92,208)</u>
Operating Expenses					
Losses and loss adjustment expenses incurred	6,108,389	5,031,465	1,076,924	4,532,398	499,067
General and administrative expenses	<u>1,465,513</u>	<u>1,477,108</u>	<u>(11,595)</u>	<u>2,548,834</u>	<u>(1,071,726)</u>
Total Operating Expenses	<u>7,573,902</u>	<u>6,508,573</u>	<u>1,065,329</u>	<u>7,081,232</u>	<u>(572,659)</u>
Operating Income	<u>\$ 1,975,221</u>	<u>\$ 2,591,986</u>	<u>\$ (616,765)</u>	<u>\$ 2,111,535</u>	<u>\$ 480,451</u>

- Membership contributions in 2016 and 2015 increased by \$623,042 and \$52,310, 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 2016 and 2015 as listed below, and the average contribution rate was unchanged for 2016 and 2015.

	<u>2016</u>	<u>2015</u>
General Liability	13.0%	1.0%
Officials Liability	2.0%	1.0%
Auto Liability	7.0%	1.0%
Auto Physical Damage	11.0%	7.0%
Law Enforcement Liability	0.0%	2.0%
Property	7.0%	7.0%

Membership contributions are recorded net of renewal, loss control, loss ratio and law enforcement contribution credits. During 2016 and 2015, these credits decreased by \$49,728 and increased by \$51,711, respectively. The overall increase in member contributions was due to an increase in members and the renewal members' exposure base.

- In 2016 and 2015, reinsurance premiums ceded increased by \$174,478 and \$144,518, respectively, primarily due to a change in the Pool's liability and property reinsurance rates and changes in the value of reinsured assets.

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- Loss and loss adjustment expenses increased by \$1,076,924 and \$499,067 in 2016 and 2015, 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 \$11,595 and \$1,071,726 in 2016 and 2015, respectively. The expense in 2016 is very consistent with 2015. The decrease in 2015 was primarily due to bringing administrative services in-house, thus reducing service provider fees.

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				
	2016	2015	Change 2015-2016	2014	Change 2014-2015
Nonoperating Revenues					
Net investment income	\$ 430,404	\$ 404,242	\$ 26,162	\$ 790,786	\$ (386,544)
Earned member equity, NLC Mutual Insurance Company	29,681	28,747	934	43,062	(14,315)
Total Nonoperating Revenues	460,085	432,989	27,096	833,848	(400,859)
Nonoperating Expenses	-	-	-	-	-
Net Nonoperating Revenues	<u>\$ 460,085</u>	<u>\$ 432,989</u>	<u>\$ 27,096</u>	<u>\$ 833,848</u>	<u>\$ (400,859)</u>

Investment income increased by \$26,162 and decreased by \$386,544 in 2016 and 2015, respectively. The increase in investment income in 2016 was due to having a larger bond portfolio with improving interest rates. This was offset by the unrealized loss on the bonds increasing. The decrease in 2015 was due to a net decrease in realized and unrealized gains that overshadowed the modest increase in interest income.

- 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 \$29,681 and \$28,747 in 2016 and 2015, respectively.
- Capitalized contributions were \$91,910 and \$84,156 in 2016 and 2015, respectively. There were no capitalized distributions in 2016 and 2015.

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	The Pool's Total Revenue and Expenses				
	2016	2015	Change 2015-2016	2014	Change 2014-2015
Operating Revenues	\$ 9,549,123	\$ 9,100,559	\$ 448,564	\$ 9,192,767	\$ (92,208)
Nonoperating Revenues	460,085	432,989	27,096	833,848	(400,859)
Total revenues	<u>10,009,208</u>	<u>9,533,548</u>	<u>475,660</u>	<u>10,026,615</u>	<u>(493,067)</u>
Operating Expenses	7,573,902	6,508,573	1,065,329	7,081,232	(572,659)
Nonoperating Expenses	-	-	-	-	-
Total expenses	<u>7,573,902</u>	<u>6,508,573</u>	<u>1,065,329</u>	<u>7,081,232</u>	<u>(572,659)</u>
Capitalization Contributions	91,910	84,156	7,754	102,799	(18,643)
Capitalization Distributions	-	-	-	-	-
Change in Net Position	<u>2,527,216</u>	<u>3,109,131</u>	<u>(581,915)</u>	<u>3,048,182</u>	<u>60,949</u>
Net Position, End of Year	<u>\$ 23,433,250</u>	<u>\$ 20,906,034</u>	<u>\$ 2,527,216</u>	<u>\$ 17,796,903</u>	<u>\$ 3,109,131</u>

Economic Factors and Next Year's Results

- In 2017, 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 2017, self-insured retentions will remain at \$500,000 for liability and \$350,000 for property.
- The members will be offered renewal, loss control, loss ratio and law enforcement credits in 2017 as in 2016.
- Based upon the Actuarial Study as of December 31, 2016, no significant changes in rates charged for coverage are expected.

All of these factors were considered in preparing the Pool's budget for the 2017 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 Judy Payne, 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, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,535,175	\$ 1,214,295
Receivables		
Contributions	353,464	135,879
Investment income	135,617	146,239
Reinsurance recoverable on paid losses	163,470	608,036
Prepaid expenses	1,493	241
Investments		
Certificates of deposit	497,120	1,797,323
Debt securities	650,101	-
Total current assets	3,336,440	3,902,013
Noncurrent Assets		
Investments		
Certificates of deposit	5,094,063	3,041,824
Debt securities	27,942,139	26,924,682
Contributed Surplus and Member Equity in NLC Mutual Insurance Company	942,953	913,272
Capital Assets, Net	87,315	125,646
	34,066,470	31,005,424
	\$ 37,402,910	\$ 34,907,437
Liabilities and Net Position		
Current Liabilities		
Losses and loss adjustment expense reserves, net	\$ 3,354,001	\$ 4,082,193
Accounts payable and accrued expenses	29,387	3,149
Unearned contributions	3,083,533	3,176,368
Total current liabilities	6,466,921	7,261,710
Noncurrent Liabilities		
Losses and loss adjustment expense reserves, net	7,436,428	6,666,406
Unearned contributions, capitalization contributions	66,311	73,287
Total noncurrent liabilities	7,502,739	6,739,693
Total liabilities	13,969,660	14,001,403
Net Position - Unrestricted	23,433,250	20,906,034
	\$ 37,402,910	\$ 34,907,437

South Dakota Public Assurance Alliance
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Contributions		
Operating, net of credits of \$1,011,213 and \$1,060,941 in 2016 and 2015, respectively	\$ 11,507,053	\$ 10,884,011
Reinsurance premiums ceded	(1,957,930)	(1,783,452)
Net Operating Revenues	9,549,123	9,100,559
Operating Expenses		
Losses and loss adjustment expenses incurred, net	6,108,389	5,031,465
General and administrative expenses		
Administrative expenses	1,465,513	1,477,108
Total general and administrative expenses	1,465,513	1,477,108
Total Operating Expenses	7,573,902	6,508,573
Operating Gain	1,975,221	2,591,986
Nonoperating Revenues		
Net investment income	430,404	404,242
Earned member equity, NLC Mutual Insurance Company	29,681	28,747
Total nonoperating revenues	460,085	432,989
Income Before Capitalization Contributions and Distributions	2,435,306	3,024,975
Capitalization Contributions	91,910	84,156
Change in Net Position	2,527,216	3,109,131
Net Position, Beginning of Year	20,906,034	17,796,903
Net Position, End of Year	\$ 23,433,250	\$ 20,906,034

South Dakota Public Assurance Alliance
 Statements of Cash Flows
 Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Operating contributions received	\$ 11,196,633	\$ 10,566,790
Reinsurance premiums paid	(1,957,930)	(1,783,452)
Losses and loss adjustment expenses paid	(5,621,993)	(6,300,388)
General and administrative expenses paid	(1,402,196)	(1,314,238)
Net Cash Provided by Operating Activities	2,214,514	1,168,712
Noncapital Financing Activities		
Cumulative reserve contributions received	84,934	58,041
Capital and Related Financing Activities		
Purchase of capital assets	-	(31,487)
Net Cash from Financing Activities	84,934	26,554
Cash Flows from Investing Activities		
Debt securities		
Purchases	(7,994,135)	(8,756,569)
Maturities and calls	4,112,929	1,956,800
Repayments on mortgage-backed securities	2,487,791	4,126,255
Proceeds from maturities of certificates of deposit	1,333,000	1,521,000
Purchases of certificates of deposit	(2,668,504)	(206,981)
Investment income received, net of investment expenses	750,351	693,791
Net Cash used in Investing Activities	(1,978,568)	(665,704)
Net Change in Cash and Cash Equivalents	320,880	529,562
Cash and Cash Equivalents, Beginning of Year	1,214,295	684,733
Cash and Cash Equivalents, End of Year	\$ 1,535,175	\$ 1,214,295

South Dakota Public Assurance Alliance
 Statements of Cash Flows
 Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating gain	\$ 1,975,221	\$ 2,591,986
Adjustments to reconcile operating gain to net cash from operating activities		
Depreciation	38,331	38,054
Increase (decrease) in assets		
Contributions receivable	(217,585)	(110,738)
Reinsurance recoverable on paid losses	444,566	(406,897)
Prepaid expenses	(1,252)	122,500
Increase (decrease) in liabilities		
Losses and loss adjustment expense reserves	41,830	(862,026)
Accounts payable and accrued expenses	26,238	2,316
Unearned contributions	(92,835)	(206,483)
	<u>\$ 2,214,514</u>	<u>\$ 1,168,712</u>
Net Cash Provided by Operating Activities		
Supplemental Disclosure of Noncash Investing and Financing Activity		
Net increase in the fair value of investments	<u>\$ 309,325</u>	<u>\$ 325,353</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 423 members are various governmental entities throughout South Dakota. The Pool is a separate legal entity pursuant to South Dakota Codified law 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

The Board of Directors has designated an "Operating Fund" and a "Cumulative Reserve Fund", the sum of these amounts comprise Net Position – Unrestricted in the Pool's statements of net position. Amounts in the Operating Fund are adjusted by changes in net position resulting from other than capitalization contributions, which are net of distributions of capitalization contributions. As of December 31, 2016 and 2015, the Operating Fund had a surplus of \$12,234,345 and \$9,792,195, respectively, and the Cumulative Reserve Fund had a balance of \$11,198,905 and \$11,113,839, respectively. In the event that the Operating Fund is exhausted during any Pool fiscal year, any funds required to fulfill the purpose of the Operating Fund will be allocated from the Cumulative Reserve Fund. The sum so allocated constitutes a deficiency in the Cumulative Reserve Fund. This deficiency in the Cumulative Reserve Fund will be allocated to the members at the time withdrawn, on a pro rata basis determined by the Board of Directors. This deficit in the Cumulative Reserve Fund will be made up in subsequent years with any excess of income over expenses in the Operating Fund being transferred to the Cumulative Reserve Fund.

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:

	Percent of "Basis Rate"
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 required only if the Pool's Board of Directors determines that such contributions are necessary to maintain the Cumulative Reserve Fund at a level equal to 300% of the total current basis rates of all members or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool. Capitalization contributions do not apply to members with property risk coverage.

“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	50%
End of member's second full year	60%
End of member's third full year	70%
End of member's fourth full year	80%
End of member's fifth full year	90%
End of member's sixth full year and thereafter	100%

The Pool will deduct from such refund, the member’s contribution, which the withdrawing member would have made for the one-year period following withdrawal together with the withdrawing member’s proportionate share (determined in accordance with the Intergovernmental Contract) of any deficiency in the Cumulative Reserve Fund.

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. The terminated member also forfeits all rights to any return of contributions including its vested interest in the Cumulative Reserve Fund. The Pool will apply any or all of the terminated member's forfeited funds to the Operating Fund. If the member subsequently submits 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, the Cumulative Reserve Fund and any reinsurance, then payment of valid claims are 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 and Cumulative Reserve 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 reinsurers and other third-party payers. The Pool evaluates the collectability of such receivables monthly based on the third-party payers' financial condition, credit history, and current economic conditions. Receivables are written-off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Investments

Investment securities are accounted for under the provisions of GASB Statement No. 31. Under Statement No. 31, the Pool is required to report investments (other than certificates of deposit) at fair value in the statement of net position with changes in the fair value of investments reported as investment income. Certificates of deposit are stated at cost.

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, 2016 and 2015, 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 2016 and 2015.

Subsequent Events

The Pool has evaluated subsequent events through April 18, 2016, the date on which the financial statements were available to be issued.

Note 2 - Deposits and Investments

As of December 31, 2016, the Pool had the following investments:

Investment Type	Fair Value/ Carrying Value	Effective Duration (In Years)
U.S. Government corporations and agencies	\$ 20,462,302	2.14
Mortgage-backed securities	8,129,938	0.25
Certificates of deposit	5,591,183	0.45
	<u>\$ 34,183,423</u>	
Total weighted average		<u>2.84</u>

As of December 31, 2015, the Pool had the following investments:

<u>Investment Type</u>	<u>Fair Value/ Carrying Value</u>	<u>Effective Duration (In Years)</u>
U.S. Government corporations and agencies	\$ 17,133,385	2.45
Mortgage-backed securities	9,791,297	0.88
Certificates of deposit	<u>4,839,147</u>	<u>0.33</u>
	<u>\$ 31,763,829</u>	
Total weighted average		<u>3.65</u>

As of December 31, 2016 and 2015, 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 \$309,325 and \$325,353 during 2016 and 2015, 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, 2016 and 2015.

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, 2016 and 2015, consisted of the following:

	2016	2015
Office equipment	\$ 118,055	\$ 118,055
Vehicles	71,249	71,249
	189,304	189,304
Less accumulated depreciation	(101,989)	(63,658)
	\$ 87,315	\$ 125,646

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, 2016 and 2015:

	2016	2015
Unpaid losses and loss adjustment expense reserves, beginning of year	\$ 10,748,599	\$ 11,610,625
Less reinsurance recoverable, beginning of year	(608,036)	(201,139)
Net unpaid losses and loss adjustment expense reserves, beginning of year	10,140,563	11,409,486
Net incurred losses and loss adjustment expenses		
Current year provision	6,628,190	6,715,530
Decrease in prior years' provisions	(519,801)	(1,684,065)
Net provision	6,108,389	5,031,465
Net losses and loss adjustment expense payments attributable to		
Current year	(2,078,885)	(2,473,862)
Prior years	(3,543,108)	(3,826,526)
Net payments	(5,621,993)	(6,300,388)
Net unpaid losses and loss adjustment expense reserves, end of year	10,626,959	10,140,563
Plus reinsurance recoverable at end of year	163,470	608,036
Unpaid losses and loss adjustment expense reserves, end of year	\$ 10,790,429	\$ 10,748,599

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expense reserves decreased approximately \$520,000 and \$1,684,000 in 2016 and 2015, 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 2016 and 2015, 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 and \$500,000 to \$6,000,000 of loss per occurrence in both 2016 and 2015, respectively.

The Pool also has property reinsurance in which the Pool retains property risks up to \$350,000 and \$250,000 per claim in an amount not to exceed \$500,000,000 and \$250,000,000 per occurrence in 2016 and 2015, respectively.

The Pool would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. Reinsurance amounts of \$1,696,044 and \$4,490,347 were deducted from the estimated liability for losses and loss adjustment expense reserves in 2016 and 2015, respectively. Recovery amounts of \$2,686,478 and \$1,588,821 from reinsurance, subrogation, and deductibles were deducted from losses and loss adjustment expenses incurred. During 2016 and 2015, the Pool ceded \$1,957,930 and \$1,783,452 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, 2016 and 2015, are as follows:

	2016	2015
Renewal credits		
Casualty	\$ 30,102	\$ 21,822
Property	26,995	39,063
Loss control credits		
Casualty	220,602	156,700
Property	195,574	278,494
Loss ratio credits		
Casualty	254,871	191,199
Property	230,197	325,858
Law enforcement credits		
Casualty	52,872	47,805
Total credits	\$ 1,011,213	\$ 1,060,941

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:

Years Ending December 31,	Amount
2017	\$ 671,914
2018	2,515

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, 2016 and 2015, respectively:

	2016	2015
Salaries and benefits	\$ 875,732	\$ 783,125
Support services	100,000	100,000
Endorsement fees	56,100	60,000
	\$ 1,031,832	\$ 943,125



Required Supplementary Information
December 31, 2016 and 2015

South Dakota Public Assurance Alliance

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	*2007	*2008	*2009	2010	2011
Net Earned Member Contributions and Investment Income					
Earned	\$ 6,744,025	\$ 6,711,349	\$ 6,792,795	\$ 6,668,381	\$ 6,796,098
Ceded	935,998	916,388	877,199	887,306	877,692
Net earned	<u>5,808,027</u>	<u>5,794,961</u>	<u>5,915,596</u>	<u>5,781,075</u>	<u>5,918,406</u>
Unallocated Expenses	<u>1,273,123</u>	<u>1,246,186</u>	<u>1,322,324</u>	<u>1,144,251</u>	<u>1,191,760</u>
Estimated Claims and Expenses, End of Policy Year					
Incurred	4,429,774	4,544,518	4,733,329	4,572,530	6,132,104
Ceded	-	-	-	-	-
Net incurred	<u>4,429,774</u>	<u>4,544,518</u>	<u>4,733,329</u>	<u>4,572,530</u>	<u>6,132,104</u>
Net Paid (Cumulative) as of:					
End of policy year	1,004,961	1,139,743	1,268,325	959,851	666,347
One year later	1,910,876	1,603,952	2,079,245	1,959,028	1,463,227
Two years later	2,781,017	2,174,212	2,311,501	2,485,549	1,652,851
Three years later	3,033,426	2,999,207	3,524,990	3,367,714	1,916,892
Four years later	3,278,206	3,278,319	4,135,452	3,881,664	1,971,021
Five years later	3,791,956	3,317,509	4,302,985	4,656,501	2,319,780
Six years later	3,833,733	3,597,820	4,335,278	4,998,409	-
Seven years later	3,964,880	3,615,306	4,335,621	-	-
Eight years later	3,972,241	3,619,898	-	-	-
Nine years later	3,973,155	-	-	-	-
Reestimated Ceded Claims and Expenses	390,930	75,000	-	-	-
Reestimated Net Incurred Claims and Expenses					
End of policy year	4,429,774	4,544,518	4,733,329	4,572,530	6,132,104
One year later	4,466,672	4,199,544	4,302,171	4,351,000	3,736,000
Two years later	5,185,031	4,511,014	4,263,000	4,589,000	2,943,000
Three years later	4,806,668	4,089,000	4,638,000	5,242,065	2,376,517
Four years later	4,758,000	4,061,043	4,661,512	5,183,610	2,452,983
Five years later	4,554,100	3,965,000	4,426,358	5,347,000	2,319,780
Six years later	4,140,371	3,663,412	4,438,908	5,234,767	-
Seven years later	4,015,982	3,700,744	4,351,359	-	-
Eight years later	3,988,701	3,683,744	-	-	-
Nine years later	3,987,117	-	-	-	-
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year	(442,657)	(860,774)	(381,970)	662,237	(3,812,324)

* 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 – Casualty
For the Ten Years Ended December 31, 2016

2012	2013	2014	2015	2016
\$ 6,556,760	\$ 6,585,671	\$ 7,246,098	\$ 7,070,490	\$ 7,523,785
876,308	867,672	650,386	1,090,089	1,176,754
<u>5,680,452</u>	<u>5,717,999</u>	<u>6,595,712</u>	<u>5,980,401</u>	<u>6,347,031</u>
<u>1,201,561</u>	<u>1,310,711</u>	<u>1,537,387</u>	<u>977,085</u>	<u>871,357</u>
4,693,683	2,778,717	4,757,000	4,392,000	4,273,000
-	-	-	-	-
<u>4,693,683</u>	<u>2,778,717</u>	<u>4,757,000</u>	<u>4,392,000</u>	<u>4,273,000</u>
411,666	528,191	690,369	821,756	788,959
710,959	1,063,843	1,278,609	1,531,140	-
1,087,257	1,969,937	1,938,332	-	-
1,192,105	2,406,801	-	-	-
1,465,587	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
4,693,683	2,778,717	4,757,000	4,392,000	4,273,000
2,821,044	2,869,114	3,414,000	4,036,000	-
1,340,249	3,600,000	3,373,000	-	-
1,488,325	3,282,705	-	-	-
1,612,325	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(3,081,358)	503,988	(1,384,000)	(356,000)	-

	*2007	*2008	*2009	2010	2011
Net Earned Member Contributions and Investment Income					
Earned	\$ 3,032,380	\$ 2,903,096	\$ 2,879,123	\$ 3,295,427	\$ 3,697,628
Ceded	548,020	459,297	455,792	476,679	498,538
Net earned	2,484,360	2,443,799	2,423,331	2,818,748	3,199,090
Unallocated Expenses	656,029	611,229	666,432	590,760	641,663
Estimated Claims and Expenses, End of Policy Year					
Incurred	1,948,882	2,175,059	1,456,943	1,675,317	1,295,791
Ceded	428,876	-	-	-	-
Net incurred	1,520,006	2,175,059	1,456,943	1,675,317	1,295,791
Net Paid (Cumulative) as of:					
End of policy year	1,282,494	1,562,896	813,109	1,179,775	737,072
One year later	1,545,693	1,975,167	1,087,218	1,362,496	1,171,941
Two years later	1,536,513	1,874,415	993,819	1,373,126	1,185,797
Three years later	1,538,983	1,797,241	1,000,573	1,373,807	1,500,177
Four years later	1,358,415	1,803,426	1,000,644	1,374,383	1,507,860
Five years later	1,358,415	1,803,482	1,000,644	1,374,980	1,507,860
Six years later	1,358,415	1,802,880	1,000,644	1,376,669	-
Seven years later	1,358,415	1,802,828	1,000,644	-	-
Eight years later	1,358,415	1,802,630	-	-	-
Nine years later	1,358,415	-	-	-	-
Reestimated Ceded Claims and Expenses	174,729	-	-	-	-
Reestimated Net Incurred Claims and Expenses					
End of policy year	1,520,006	2,175,059	1,456,943	1,675,317	1,295,791
One year later	1,583,185	2,086,828	1,216,535	1,427,150	1,692,646
Two years later	1,536,815	2,044,404	1,028,322	1,383,000	1,646,894
Three years later	1,541,983	1,861,421	1,004,261	1,381,000	1,519,796
Four years later	1,358,415	1,804,983	1,000,644	1,378,305	1,507,860
Five years later	1,358,415	1,803,482	1,000,644	1,374,980	1,507,860
Six years later	1,358,415	1,804,027	1,000,644	1,388,749	-
Seven years later	1,358,415	1,804,983	1,000,644	-	-
Eight years later	1,358,415	1,804,633	-	-	-
Nine years later	1,358,415	-	-	-	-
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year	(161,591)	(370,076)	(456,299)	(300,337)	212,069

* 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, 2016, 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 April 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify a deficiency in internal control, 2016-A in the accompanying schedule of findings and response, which we consider to be a significant deficiency.

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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
April 18, 2016

**2016-A Preparation of Financial Statements and Audit Entries
 Significant Deficiency**

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

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

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

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

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

View of Responsible Officials – Eide Bailly cites that 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 affect the annual financial statement reporting are outweighed by the Members’ benefit of using those resources elsewhere in the organization.