



Financial Statements
December 31, 2023 and 2022
South Dakota Public Assurance Alliance

South Dakota Public Assurance Alliance

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December 31, 2023 and 2022

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Independent Auditor's Report

To the Board of Directors
South Dakota Public Assurance Alliance
Sioux Falls, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of South Dakota Public Assurance Alliance, which comprise the statements of net position as of December 31, 2023 and 2022, 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 collectively comprise South Dakota Public Assurance Alliance's basic financial statements listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of South Dakota Public Assurance Alliance, as of December 31, 2023 and 2022, and the respective changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Dakota Public Assurance Alliance and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South Dakota Public Assurance Alliance's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 South Dakota Public Assurance Alliance's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about South Dakota Public Assurance Alliance's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of claims development information - casualty, schedule of claims development information - property, and reconciliation of claims liabilities by type of coverage be presented to supplement the basic financial statements. Such information is the responsibility of management and 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2024, 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 solely 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 South Dakota Public Assurance Alliance'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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed name and date.

Fargo, North Dakota
July 15, 2024

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 change in net position of the Pool for the years ended December 31, 2023 and 2022.

Financial Highlights

Total assets increased by \$4,331,267 and decreased by \$6,080,361 to \$46,835,887 and \$42,504,620 in 2023 and 2022, respectively.

Cash and current investments increased by \$5,194,006 and decreased by \$4,986,413 in 2023 and 2022, respectively. Non-current investments decreased by \$62,817 and \$5,740,931 in 2023 and 2022, respectively.

For 2023 and 2022, the Pool had operating income of \$597,074 and (\$1,060,688), respectively.

Net investment income was \$2,394,354 and (\$3,386,679) in 2023 and 2022, 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 required 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.

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 15 through 26 of this report.

Financial Analysis

By far the largest portion of the Pool's assets (84.2% and 80.7%), as of December 31, 2023 and 2022, respectively, is its cash and investments. The Pool uses these assets primarily to pay claim liabilities.

| | The Pool's Net Position | | | | |
|---|-------------------------|----------------------|---------------------|----------------------|-----------------------|
| | 2023 | 2022 | Change 2022-2023 | 2021 | Change 2021-2022 |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and investments | \$ 10,485,857 | \$ 5,291,851 | \$ 5,194,006 | \$ 10,278,264 | \$ (4,986,413) |
| Receivables | 6,089,081 | 6,956,255 | (867,174) | 2,073,761 | 4,882,494 |
| Prepaid expenses | 32,140 | 22,519 | 9,621 | 314,145 | (291,626) |
| Total current assets | <u>16,607,078</u> | <u>12,270,625</u> | <u>4,336,453</u> | <u>12,666,170</u> | <u>(395,545)</u> |
| Noncurrent Assets | | | | | |
| Investments | 28,943,060 | 29,005,877 | (62,817) | 34,746,808 | (5,740,931) |
| Contributed surplus and member equity in NLC Mutual Insurance Company | 1,226,146 | 1,179,440 | 46,706 | 1,159,554 | 19,886 |
| Capital assets | 59,603 | 48,678 | 10,925 | 12,449 | 36,229 |
| Total noncurrent assets | <u>30,228,809</u> | <u>30,233,995</u> | <u>(5,186)</u> | <u>35,918,811</u> | <u>(5,684,816)</u> |
| Total Assets | <u>\$ 46,835,887</u> | <u>\$ 42,504,620</u> | <u>\$ 4,331,267</u> | <u>\$ 48,584,981</u> | <u>\$ (6,080,361)</u> |

South Dakota Public Assurance Alliance
Management's Discussion and Analysis - Unaudited
December 31, 2023 and 2022

| | The Pool's Net Position | | | | |
|--|-------------------------|----------------------|---------------------|----------------------|-----------------------|
| | 2023 | 2022 | Change 2022-2023 | 2021 | Change 2021-2022 |
| Liabilities and Net Position | | | | | |
| Current Liabilities | | | | | |
| Losses and loss adjustment expense reserves | \$ 4,709,908 | \$ 4,263,059 | \$ 446,849 | \$ 5,349,512 | \$ (1,086,453) |
| Accounts payable and accrued expenses | 32,106 | 397,703 | (365,597) | 22,582 | 375,121 |
| Funds held from reinsurer for claim payments | - | - | - | 216,932 | (216,932) |
| Withdrawing member refund | 9,451 | 14,332 | (4,881) | 34,939 | (20,607) |
| Unearned contributions | 4,720,220 | 3,608,056 | 1,112,164 | 3,539,328 | 68,728 |
| Total current liabilities | <u>9,471,685</u> | <u>8,283,150</u> | <u>1,188,535</u> | <u>9,163,293</u> | <u>(880,143)</u> |
| Noncurrent Liabilities | | | | | |
| Losses and loss adjustment expense reserves | 5,679,309 | 5,575,303 | 104,006 | 6,348,652 | (773,349) |
| Unearned contributions, capitalization contributions | - | - | - | - | - |
| Total noncurrent liabilities | <u>5,679,309</u> | <u>5,575,303</u> | <u>104,006</u> | <u>6,348,652</u> | <u>(773,349)</u> |
| Total liabilities | <u>15,150,994</u> | <u>13,858,453</u> | <u>1,292,541</u> | <u>15,511,945</u> | <u>(1,653,492)</u> |
| Net Position, Unrestricted | <u>31,684,893</u> | <u>28,646,167</u> | <u>3,038,726</u> | <u>33,073,036</u> | <u>(4,426,869)</u> |
| Total Liabilities and Net Position | <u>\$ 46,835,887</u> | <u>\$ 42,504,620</u> | <u>\$ 4,331,267</u> | <u>\$ 48,584,981</u> | <u>\$ (6,080,361)</u> |

- There was an increase in cash and investments of \$5,131,189 and a decrease of \$10,727,344 in 2023 and 2022, respectively. During 2023, the current portion of cash and investments increased by \$5,194,006 while the long-term portion decreased by \$62,817. During 2022, the current portion of cash and investments decreased by \$4,986,413 while the long-term portion decreased by \$5,740,931. In 2023, the overall increase was due in part to operating revenues exceeding expenses allowing more cash to be invested. In 2022, the overall decrease was due to changes in fair market value of investments and decreases in interest rates.
- There was a decrease in receivables in 2023 of \$867,174 due to a \$824,667 increase in contributions receivable, \$1,111,076 decrease in reinsurance receivables, \$624,028 decrease in miscellaneous receivables and a \$43,261 increase in accrued interest receivable. There was an increase in receivables in 2022 of \$4,882,494 due to a \$181,304 decrease in contributions receivable, \$4,420,596 increase in reinsurance receivables, \$621,547 increase in miscellaneous receivables and a \$21,655 increase in accrued interest receivable.
- Prepaid expenses increased by \$9,621 and decreased by \$291,626 in 2023 and 2022, respectively. The increase in 2023 was due to prepaying advertisements, sponsorships and exhibit booth fees and the decrease in 2022 was due to fewer invoices being paid in advance for the next year.

- Loss and loss adjustment expense reserves increased by \$550,855 and decreased by \$1,859,802 in 2023 and 2022, respectively. During 2023, the current portion of losses and loss adjustment expense reserves increased \$446,849, and the long-term portion increased by \$104,006. During 2022, the current portion of losses and loss adjustment expense reserves decreased \$1,086,453, and the long-term portion decreased by \$773,349. The overall increase in 2023 was due to claims activity occurring in the current year along with changes in estimates of insured events in prior years. The overall decrease in 2022 was due to claims activity occurring in the current year along with payments made and changes to estimates of insured events in prior years.
- There was an increase in unrestricted net position of \$3,038,726 and a decrease of \$4,426,869 in 2023 and 2022, respectively. The increase in 2023 is due in large part to the decrease in claims expenses and an increase in unrealized gains. The decrease in 2022 was a result of an increase in claims and operating expenses and an increase in unrealized losses.

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 2023 and 2022 the Pool had operating income of \$597,074 and (\$1,060,688), respectively.

| | The Pool's Operating Income | | | | |
|--|-----------------------------|-----------------------|---------------------|---------------------|-----------------------|
| | 2023 | 2022 | Change 2022-2023 | 2021 | Change 2021-2022 |
| Operating Revenues | | | | | |
| Contributions, net | \$ 17,773,558 | \$ 15,234,325 | \$ 2,539,233 | \$ 14,966,560 | \$ 267,765 |
| Reinsurance premiums ceded | (6,451,973) | (5,112,696) | (1,339,277) | (4,388,684) | (724,012) |
| Net Operating Revenues | <u>11,321,585</u> | <u>10,121,629</u> | <u>1,199,956</u> | <u>10,577,876</u> | <u>(456,247)</u> |
| Operating Expenses | | | | | |
| Losses and loss adjustment expenses incurred | 9,209,611 | 9,446,674 | (237,063) | 7,112,027 | 2,334,647 |
| General and administrative expenses | 1,514,900 | 1,735,643 | (220,743) | 1,513,200 | 222,443 |
| Total Operating Expenses | <u>10,724,511</u> | <u>11,182,317</u> | <u>(457,806)</u> | <u>8,625,227</u> | <u>2,557,090</u> |
| Operating Income | <u>\$ 597,074</u> | <u>\$ (1,060,688)</u> | <u>\$ 1,657,762</u> | <u>\$ 1,952,649</u> | <u>\$ (3,013,337)</u> |

Membership contributions in 2023 and 2022 increased by \$2,539,233 and \$267,765 respectively. Contribution rates are calculated for general liability by multiplying the members' operating expenditures and payroll by rates determined with the Pool's budget and actuarial recommended minimum funding value. 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.

South Dakota Public Assurance Alliance
Management's Discussion and Analysis - Unaudited
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The members' exposure base increased in 2023 and 2022 as listed below.

| | <u>2023</u> | <u>2022</u> |
|---------------------------|-------------|-------------|
| General liability | 5.0% | 1.0% |
| Auto liability | 5.0% | 1.0% |
| Auto physical damage | 14.0% | 5.0% |
| Law enforcement liability | 2.0% | 1.0% |
| Property | 27.0% | 8.0% |

Membership contributions are recorded net of renewal, loss control, loss ratio and law enforcement contribution credits. During 2023 and 2022, these credits increased by \$43,874 and decreased by \$101,519, respectively. The overall increase in member contributions was due to an increase in members and the renewal members' exposure base.

- In 2023 and 2022, reinsurance premiums ceded increased by \$1,339,277 and \$724,012, 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 \$237,063 and increased by \$2,334,647 in 2023 and 2022, 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 \$220,743 and increased by \$222,443 in 2023 and 2022, respectively.

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 | | | | |
|-------------------------------------|---|-----------------------|-----------------------------|---------------------|-----------------------------|
| | <u>2023</u> | <u>2022</u> | <u>Change 2022-2023</u> | <u>2021</u> | <u>Change 2021-2022</u> |
| Nonoperating Revenues | | | | | |
| Net investment income | \$ 2,394,354 | \$ (3,386,679) | \$ 5,781,033 | \$ (257,822) | \$ (3,128,857) |
| Earned member equity, NLC Mutual | | | | | |
| Insurance Company | 46,706 | 19,886 | 26,820 | 73,832 | (53,946) |
| Other | 592 | 612 | (20) | 320 | 292 |
| Total Nonoperating Revenues | <u>2,441,652</u> | <u>(3,366,181)</u> | <u>5,807,833</u> | <u>(183,670)</u> | <u>(3,182,511)</u> |
| Nonoperating Expenses | - | - | - | - | - |
| Net Nonoperating Revenues | <u>\$ 2,441,652</u> | <u>\$ (3,366,181)</u> | <u>\$ 5,807,833</u> | <u>\$ (183,670)</u> | <u>\$ (3,182,511)</u> |

Investment income increased by \$5,781,033 and decreased by \$3,128,857 in 2023 and 2022, respectively. The change in investment income in 2023 and 2022 was primarily due to unrealized gains and losses due to the change in fair value of the investments and also realized losses upon sales of investments.

- 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 \$46,706 and \$19,886 in 2023 and 2022, respectively.
- Capitalized distributions were zero in 2023 and zero in 2022.

| | The Pool's Total Revenue and Expenses | | | | |
|--|---------------------------------------|----------------------|---------------------|----------------------|-----------------------|
| | 2023 | 2022 | Change 2022-2023 | 2021 | Change 2021-2022 |
| Operating revenues | \$ 11,321,585 | \$ 10,121,629 | \$ 1,199,956 | \$ 10,577,876 | \$ (456,247) |
| Nonoperating revenues | 2,441,652 | (3,366,181) | 5,807,833 | (183,670) | (3,182,511) |
| Total revenues | <u>13,763,237</u> | <u>6,755,448</u> | <u>7,007,789</u> | <u>10,394,206</u> | <u>(3,638,758)</u> |
| Operating expenses | 10,724,511 | 11,182,317 | (457,806) | 8,625,227 | 2,557,090 |
| Nonoperating expenses | - | - | - | - | - |
| Total expenses | <u>10,724,511</u> | <u>11,182,317</u> | <u>(457,806)</u> | <u>8,625,227</u> | <u>2,557,090</u> |
| Capitalization contributions/ (distributions) | - | - | - | (22,846) | 22,846 |
| Change in net position | <u>3,038,726</u> | <u>(4,426,869)</u> | <u>7,465,595</u> | <u>1,746,133</u> | <u>(6,173,002)</u> |
| Net position, end of year | <u>\$ 31,684,893</u> | <u>\$ 28,646,167</u> | <u>\$ 3,038,726</u> | <u>\$ 33,073,036</u> | <u>\$ (4,426,869)</u> |

Economic Factors and Next Year's Results

- In 2024, the Pool's revenue base will increase slightly due to new members in the casualty and property programs, and with current members adding or expanding current coverages.
- In 2024, self-insured retentions will remain at \$500,000 for liability, \$350,000 for property and \$1,500,000 on property for wind/hail damage. The overall reinsurance premium will continue to see increases due to the continued hardening of the property reinsurance market as rates nationally have increased and coverage has become more difficult to obtain.
- Members will be offered renewal, loss control, loss ratio and law enforcement credits in 2023 as in 2022.
- The Pool's investment income will be impacted by fluctuations in interest rates which will affect the value of certain bond investment holdings and holdings in common stock, as well as other financial market issues in 2024.

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 Lynn Bren, 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, 2023 and 2022

| | 2023 | 2022 |
|---|---------------|---------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 2,181,029 | \$ 1,330,575 |
| Receivables | | |
| Contributions | 1,293,036 | 468,369 |
| Investment income | 229,808 | 186,546 |
| Miscellaneous | - | 624,025 |
| Reinsurance recoverable on paid losses | 4,566,237 | 5,677,315 |
| Prepaid expenses | 32,140 | 22,519 |
| Investments | | |
| Certificates of deposit | 3,319,002 | 1,824,250 |
| Debt securities | 4,985,826 | 2,137,026 |
| Total current assets | 16,607,078 | 12,270,625 |
| Noncurrent Assets | | |
| Investments | | |
| Certificates of deposit | 5,945,093 | 4,152,013 |
| Debt securities | 18,581,686 | 19,557,864 |
| Equity securities | 4,416,281 | 5,296,000 |
| Contributed Surplus and Member Equity in NLC Mutual Insurance Company | 1,226,146 | 1,179,440 |
| Capital Assets, Net of Accumulated Depreciation | 59,603 | 48,678 |
| | 30,228,809 | 30,233,995 |
| | \$ 46,835,887 | \$ 42,504,620 |

South Dakota Public Assurance Alliance
 Statements of Net Position
 December 31, 2023 and 2022

| | 2023 | 2022 |
|--|---------------|---------------|
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Losses and loss adjustment expense reserves, net | \$ 4,709,908 | \$ 4,263,059 |
| Accounts payable and accrued expenses | 32,106 | 397,703 |
| Withdrawing member refund | 9,451 | 14,332 |
| Unearned contributions | 4,720,220 | 3,608,056 |
| Total current liabilities | 9,471,685 | 8,283,150 |
| Noncurrent Liabilities | | |
| Losses and loss adjustment expense reserves, net | 5,679,309 | 5,575,303 |
| Total liabilities | 15,150,994 | 13,858,453 |
| Net Position - Unrestricted | 31,684,893 | 28,646,167 |
| | \$ 46,835,887 | \$ 42,504,620 |

South Dakota Public Assurance Alliance
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|--|---------------|---------------|
| Operating Revenues | | |
| Contributions | | |
| Operating, net of credits of \$847,254 and \$803,380 in 2023 and 2022, respectively | \$ 17,773,558 | \$ 15,234,325 |
| Reinsurance premiums ceded | (6,451,973) | (5,112,696) |
| Net Operating Revenues | 11,321,585 | 10,121,629 |
| Operating Expenses | | |
| Losses and loss adjustment expenses incurred, net | 9,209,611 | 9,446,674 |
| General and administrative expenses | | |
| Administrative expenses | 1,514,900 | 1,735,643 |
| Total Operating Expenses | 10,724,511 | 11,182,317 |
| Operating Income (Loss) | 597,074 | (1,060,688) |
| Nonoperating Revenues (Expenses) | | |
| Net investment gain (loss) | 2,394,354 | (3,386,679) |
| Earned member equity, NLC Mutual Insurance Company | 46,706 | 19,886 |
| Other | 592 | 612 |
| Total nonoperating revenues (expenses) | 2,441,652 | (3,366,181) |
| Change in Net Position | 3,038,726 | (4,426,869) |
| Net Position, Beginning of Year | 28,646,167 | 33,073,036 |
| Net Position, End of Year | \$ 31,684,893 | \$ 28,646,167 |

South Dakota Public Assurance Alliance

Statements of Cash Flows - page 1
Years Ended December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Operating Activities | | |
| Operating contributions received | \$ 18,685,080 | \$ 14,862,810 |
| Reinsurance premiums paid | (6,451,973) | (5,112,696) |
| Losses and loss adjustment expenses paid | (7,547,678) | (15,727,073) |
| Funds received from reinsurer for claim payments | - | (216,932) |
| Loss on sale of capital assets | (23,892) | (26,559) |
| General and administrative expenses paid | <u>(1,851,087)</u> | <u>(1,060,815)</u> |
| Net Cash from (used for) Operating Activities | <u>2,810,450</u> | <u>(7,281,265)</u> |
| Capital and Related Financing Activities | | |
| Purchase of capital assets | <u>(30,945)</u> | <u>(38,358)</u> |
| Cash Flows from Investing Activities | | |
| Debt securities | | |
| Purchases | (7,504,449) | (3,939,914) |
| Maturities and calls | 2,860,000 | 3,197,000 |
| Repayments on mortgage-backed securities | 512,871 | 572,173 |
| Proceeds from maturities of certificates of deposit | 1,837,000 | 1,926,000 |
| Purchases of certificates of deposit | (5,039,920) | (2,703,101) |
| Purchases of mutual funds | (2,100,391) | (2,811,407) |
| Proceeds from sale of mutual funds | 6,443,109 | 6,439,215 |
| Purchases of exchange traded funds | - | (384,451) |
| Investment income received, net of investment expenses | <u>1,062,729</u> | <u>1,000,011</u> |
| Net Cash (used for) from Investing Activities | <u>(1,929,051)</u> | <u>3,295,526</u> |
| Net Change in Cash and Cash Equivalents | 850,454 | (4,024,097) |
| Cash and Cash Equivalents, Beginning of Year | <u>1,330,575</u> | <u>5,354,672</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 2,181,029</u> | <u>\$ 1,330,575</u> |

South Dakota Public Assurance Alliance

Statements of Cash Flows - page 2
Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|----------------|----------------|
| Reconciliation of Operating Income to Net Cash Provided | | |
| by Operating Activities | | |
| Operating income (loss) | \$ 597,074 | \$ (1,060,688) |
| Adjustments to reconcile operating gain to net cash from | | |
| operating activities | | |
| Depreciation | 43,912 | 28,688 |
| Loss on sale of capital assets | (23,892) | (26,559) |
| Increase (decrease) in assets | | |
| Contributions receivable | (824,667) | 181,305 |
| Miscellaneous accounts receivable | 624,025 | (621,548) |
| Reinsurance recoverable on paid losses | 1,111,078 | (4,420,597) |
| Prepaid expenses | (9,621) | 291,626 |
| Increase (decrease) in liabilities | | |
| Losses and loss adjustment expense reserves | 550,855 | (1,859,802) |
| Accounts payable and accrued expenses | (370,478) | 354,514 |
| Funds held from reinsurer for claim payments | - | (216,932) |
| Unearned contributions | 1,112,164 | 68,728 |
| Net Cash from (used for) Operating Activities | \$ 2,810,450 | \$ (7,281,265) |
| Supplemental Disclosure of Noncash Investing and Financing Activity | | |
| Net increase (decrease) in the fair value of investments | \$ (1,288,955) | \$ 4,407,732 |

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 451 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.

Thirty (30) days prior to the Pool's fiscal year end, or at such other time as directed by the Board, the Administrator shall prepare an Annual Budget for the succeeding fiscal year. The Annual Budget 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. Members' Annual Operating Contributions will be 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.

In the event that the OF becomes deficient during any Pool fiscal year, the Pool shall liquidate any and all assets and 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 such time, all coverages and payment of valid claims shall be the sole and separate obligation of each individual Member.

Members agree to continue membership for a period of not less than one (1) full year. At the conclusion of such period, or anniversary thereof, a member who has given sixty (60) days prior written notice to the Pool may withdraw.

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 reported casualty risk coverage claims and claims expense as of the withdrawal date remain the responsibility of the Pool. Payments for all unknown or unreported casualty risk coverage claims and claims expense as of the withdrawal date, become the sole responsibility of the withdrawing member.

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.

The Pool offers various Employment and Government Practices hotline services as an added benefit to its members. Due to the impacts of the COVID-19 pandemic as well as changes in state legislation throughout 2020 the Pool saw a significant increase in the members' use of this benefit.

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, *Fair Value Measurement and Application*. 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.

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, mutual funds, and exchange-traded funds (ETFs) among other securities.

Prepaid Expenses

Prepaid expenses consist of amounts paid for reinsurance in advance of the contractual period of coverage. The balances are recognized into reinsurance premiums ceded over the life of the contract.

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, 2023 and 2022. Management included \$0 and \$0 respectively, on the statement of net position related to these funds.

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 7.

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, 2023 and 2022, after consultation with an independent actuary.

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 2023 and 2022.

Note 2 - Receivables

The beginning and ending balances for accounts receivable were as follows for the years ended December 31, 2023 and 2022:

| | 2023 | |
|-------------------|------------------|--------------------|
| | <u>January 1</u> | <u>December 31</u> |
| Receivables | | |
| Contributions | \$ 468,369 | \$ 1,293,036 |
| Investment income | 186,546 | 229,808 |
| Miscellaneous | 624,025 | - |
| | | |
| | 2022 | |
| | <u>January 1</u> | <u>December 31</u> |
| Receivables | | |
| Contributions | \$ 649,674 | \$ 468,369 |
| Investment income | 164,892 | 186,546 |
| Miscellaneous | 2,477 | 624,025 |

Note 3 - Deposits and Investments

As of December 31, 2023, the Pool had the following investments:

| Investment Type | Fair Value/ Carrying Value | Effective Duration (In Years) |
|---|-------------------------------|-------------------------------------|
| U.S. Government corporations and agencies | \$ 13,404,071 | 1.68 |
| Industrial & miscellaneous | 4,592,817 | 0.26 |
| Mortgage-backed securities | 3,801,704 | 0.35 |
| Equity securities | 6,185,199 | N/A |
| Certificates of deposit | 9,264,097 | 0.44 |
| Total fair value/carrying value | <u>\$ 37,247,888</u> | |
| Total weighted average | | <u>2.73</u> |

As of December 31, 2022, the Pool had the following investments:

| Investment Type | Fair Value/ Carrying Value | Effective Duration (In Years) |
|---|-------------------------------|-------------------------------------|
| U.S. Government corporations and agencies | \$ 13,524,780 | 2.13 |
| Industrial & miscellaneous | 5,250,019 | 0.48 |
| Mortgage-backed securities | 2,920,089 | 0.45 |
| Equity securities | 5,296,000 | N/A |
| Certificates of deposit | 5,976,265 | 0.45 |
| Total fair value/carrying value | <u>\$ 32,967,153</u> | |
| Total weighted average | | <u>3.51</u> |

As of December 31, 2023 and 2022, the Pool had no investments which exceed 5% of the total investment portfolio.

Recurring fair value measurements are those that 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 increased by \$1,777,338 and decreased by \$3,707,696 during 2023 and 2022, 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 Company maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2023, and December 31, 2022, the Company had \$2,070,320 and \$2,697,169, respectively, in excess of FDIC-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.

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 at least A as of December 31, 2023 and 2022.

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 40% of the market value of the portfolio. The use of leverage and direct investment in derivative securities is prohibited. The aggregate market value of common stock held in mutual funds or ETFs will be a minimum of 10% of total assets with a maximum of 30% and a maximum of 40% of common stock can be invested in international developed or emerging market holdings.

Note 4 - Capital Assets

Capital assets as of December 31, 2023 and 2022, consisted of the following:

| | <u>2023</u> | <u>2022</u> |
|-------------------------------|------------------|------------------|
| Office equipment | \$ 101,999 | \$ 104,536 |
| Vehicles | 95,452 | 94,859 |
| | <u>197,451</u> | <u>199,395</u> |
| Less accumulated depreciation | <u>(137,848)</u> | <u>(150,717)</u> |
| Capital assets | <u>\$ 59,603</u> | <u>\$ 48,678</u> |

Note 5 - 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, 2023 and 2022:

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|---------------------|
| Unpaid losses and loss adjustment expense reserves, beginning of year | \$ 9,838,362 | \$ 11,672,047 |
| Less reinsurance recoverable, beginning of year | <u>(5,677,315)</u> | <u>(1,230,601)</u> |
| Net unpaid losses and loss adjustment expense reserves, beginning of year | <u>4,161,047</u> | <u>10,441,446</u> |
| Net incurred losses and loss adjustment expenses | | |
| Current year provision | 9,883,232 | 11,408,666 |
| Increase in prior years' provisions | <u>(673,621)</u> | <u>(1,961,992)</u> |
| Net provision | <u>9,209,611</u> | <u>9,446,674</u> |
| Net losses and loss adjustment expense payments attributable to | | |
| Current year | (6,586,401) | (8,204,659) |
| Prior years | <u>(961,277)</u> | <u>(7,522,414)</u> |
| Net payments | <u>(7,547,678)</u> | <u>(15,727,073)</u> |
| Net unpaid losses and loss adjustment expense reserves, end of year | 5,822,980 | 4,161,047 |
| Plus reinsurance recoverable at end of year | <u>4,566,237</u> | <u>5,677,315</u> |
| Unpaid losses and loss adjustment expense reserves, end of year | <u>\$ 10,389,217</u> | <u>\$ 9,838,362</u> |

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expense reserves decreased by \$673,621 and \$1,961,992 in 2023 and 2022, respectively. The change in incurred losses was primarily attributable to new information regarding claim development that became known during subsequent periods.

Losses and allocated loss adjustment expenses are projected to ultimate settlement basis using the following methods; developed paid, developed reported, developed case reserves, Bornhuetter-Ferguson paid, Bornhuetter-Ferguson reported, and frequency severity. An ultimate loss estimate is given by each of these methods for the year. The Company has elected to book the undiscounted projected ultimate net loss as of December 31, 2023 and 2022.

Note 6 - Reinsurance

The Pool has a casualty reinsurance agreement in which the Pool retains casualty risks up to \$500,000 per claim in 2023 and 2022, 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 2023 and 2022.

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 2023 and 2022.

The Pool would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. Reinsurance amounts of \$4,389,563 and \$5,564,039 were deducted from the estimated liability for losses and loss adjustment expense reserves in 2023 and 2022, respectively. Recovery amounts of \$2,886,406 and \$5,422,296 from reinsurance, subrogation, and deductibles were deducted from losses and loss adjustment expenses incurred. During 2023 and 2022, the Pool ceded \$6,451,973 and \$5,112,696 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 7 - 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 8 - Member Contribution Credits

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, 2023 and 2022, are as follows:

| | <u>2023</u> | <u>2022</u> |
|-------------------------|-------------------|-------------------|
| Renewal Credits | | |
| Casualty | \$ 58,724 | \$ 61,653 |
| Property | 69,348 | 61,688 |
| Loss Control Credits | | |
| Casualty | 175,598 | 185,333 |
| Property | 211,306 | 185,670 |
| Loss Ratio Credits | | |
| Casualty | 114,329 | 116,820 |
| Property | 151,101 | 131,705 |
| Law Enforcement Credits | | |
| Casualty | <u>66,848</u> | <u>60,511</u> |
| Total credits | <u>\$ 847,254</u> | <u>\$ 803,380</u> |

Note 9 - Commitments

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

| <u>Years Ending December 31,</u> | <u>Amount</u> |
|----------------------------------|---------------|
| 2024 | \$ 998,245 |
| 2025 | 948,675 |
| 2026 | 608,651 |
| 2027 | 629,954 |

Note 10 - 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, 2023 and 2022, respectively:

| | <u>2023</u> | <u>2022</u> |
|-----------------------|---------------------|---------------------|
| Salaries and benefits | \$ 812,680 | \$ 934,449 |
| Support services | 132,000 | 132,000 |
| Endorsement fees | 82,351 | 75,564 |
| | <u>\$ 1,027,031</u> | <u>\$ 1,142,013</u> |

Note 11 - Subsequent Events

The Pool has evaluated subsequent events through July 15, 2024, the date on which the financial statements were available to be issued.

On March 4, 2024, the Company entered into a termination and settlement agreement with one of its providers. On March 5, 2024, payment of \$81,650 was made to the provider in fulfillment of the agreement and the Pool does not have any further commitments related to the termination of this agreement as of July 15, 2024.



Required Supplementary Information
December 31, 2023

South Dakota Public Assurance Alliance

South Dakota Public Assurance Alliance
Schedule of Claims Development Information - Casualty
For the Ten Years Ended December 31, 2023

| | 2014* | 2015* | 2016* | 2017* | 2018* | 2019* | 2020* | 2021* | 2022* | 2023 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Earned Member Contributions and Investment Income | | | | | | | | | | |
| Earned | \$ 7,246,098 | \$ 7,070,490 | \$ 7,523,785 | \$ 7,648,926 | \$ 7,617,312 | \$ 9,251,996 | \$ 8,409,229 | \$ 8,360,806 | \$ 6,989,568 | \$ 9,048,241 |
| Ceded | 650,386 | 1,090,089 | 1,176,754 | 1,238,045 | 589,677 | 590,147 | 640,592 | 814,928 | 1,451,456 | 1,446,816 |
| Net earned | 6,595,712 | 5,980,401 | 6,347,031 | 6,410,881 | 7,027,635 | 8,661,849 | 7,768,637 | 7,545,878 | 5,538,112 | 7,601,425 |
| Unallocated Expenses | 1,537,387 | 977,085 | 871,357 | 1,007,120 | 877,536 | 808,082 | 463,323 | 454,802 | 691,688 | 652,497 |
| Estimated Claims and Expenses, End of Policy Year | | | | | | | | | | |
| Incurred | 4,757,000 | 4,392,000 | 4,273,000 | 4,691,000 | 4,545,000 | 5,105,000 | 4,058,000 | 3,434,000 | 4,305,000 | 4,761,000 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net incurred | 4,757,000 | 4,392,000 | 4,273,000 | 4,691,000 | 4,545,000 | 5,105,000 | 4,058,000 | 3,434,000 | 4,305,000 | 4,761,000 |
| Net Paid (Cumulative) as of: | | | | | | | | | | |
| End of policy year | 690,369 | 821,756 | 788,959 | 931,019 | 1,019,351 | 1,072,258 | 1,301,155 | 1,667,571 | 2,266,586 | 2,524,654 |
| One year later | 1,278,609 | 1,531,140 | 1,349,498 | 1,382,539 | 1,952,880 | 1,643,165 | 3,601,756 | 1,946,269 | 3,145,967 | - |
| Two years later | 1,938,332 | 2,296,045 | 1,860,986 | 1,704,385 | 2,773,749 | 3,338,644 | 3,827,079 | 2,211,713 | - | - |
| Three years later | 2,340,707 | 2,749,037 | 2,570,270 | 2,035,271 | 4,334,555 | 2,891,483 | 4,158,443 | - | - | - |
| Four years later | 2,654,463 | 3,257,959 | 3,311,655 | 2,995,437 | 4,193,620 | 3,071,314 | - | - | - | - |
| Five years later | 3,115,960 | 4,305,595 | 3,925,613 | 2,795,423 | 4,313,749 | - | - | - | - | - |
| Six years later | 3,147,658 | 4,351,163 | 3,896,355 | 2,743,214 | - | - | - | - | - | - |
| Seven years later | 3,346,773 | 4,351,163 | 3,869,867 | - | - | - | - | - | - | - |
| Eight years later | 3,291,971 | 4,338,182 | - | - | - | - | - | - | - | - |
| Nine years later | 3,291,971 | - | - | - | - | - | - | - | - | - |
| Estimated Ceded Claims and Expenses | - | - | - | - | - | - | - | - | - | - |

* Unaudited required supplementary information

South Dakota Public Assurance Alliance
Schedule of Claims Development Information - Casualty
For the Ten Years Ended December 31, 2023

| | 2014* | 2015* | 2016* | 2017* | 2018* | 2019* | 2020* | 2021* | 2022* | 2023 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Estimated Net Incurred Claims and Expenses | | | | | | | | | | |
| End of policy year | \$ 4,757,000 | \$ 4,392,000 | \$ 4,273,000 | \$ 4,691,000 | \$ 4,545,000 | \$ 5,105,000 | \$ 4,058,000 | \$ 3,434,000 | \$ 4,305,000 | \$ 4,761,000 |
| One year later | 3,414,000 | 4,036,000 | 3,447,000 | 3,329,000 | 4,661,000 | 4,020,000 | 4,509,000 | 2,992,000 | 4,277,000 | - |
| Two years later | 3,373,000 | 4,309,000 | 3,288,000 | 2,613,000 | 4,360,000 | 3,880,476 | 4,404,000 | 2,601,916 | - | - |
| Three years later | 3,227,000 | 3,534,000 | 3,751,426 | 3,197,770 | 4,489,000 | 3,024,688 | 4,259,495 | - | - | - |
| Four years later | 3,019,000 | 4,180,000 | 3,849,449 | 3,059,155 | 4,215,489 | 3,134,000 | - | - | - | - |
| Five years later | 3,425,389 | 4,350,542 | 3,960,061 | 2,815,081 | 2,757,081 | - | - | - | - | - |
| Six years later | 3,407,931 | 4,353,671 | 3,897,956 | 2,757,081 | - | - | - | - | - | - |
| Seven years later | 3,352,931 | 4,352,733 | 3,870,846 | - | - | - | - | - | - | - |
| Eight years later | 3,291,971 | 4,338,671 | - | - | - | - | - | - | - | - |
| Nine years later | 3,291,971 | - | - | - | - | - | - | - | - | - |
| Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy | (1,465,029) | (53,329) | (402,154) | (1,933,919) | (1,787,919) | (1,971,000) | 201,495 | (832,084) | (28,000) | - |

* Unaudited required supplementary information

South Dakota Public Assurance Alliance
Schedule of Claims Development Information - Property
For the Ten Years Ended December 31, 2023

| | 2014* | 2015* | 2016* | 2017* | 2018* | 2019* | 2020* | 2021* | 2022* | 2023 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Net Earned Member Contributions and Investment Income | | | | | | | | | | |
| Earned | \$ 3,964,841 | \$ 4,479,187 | \$ 4,301,919 | \$ 4,505,582 | \$ 4,637,146 | \$ 5,989,418 | \$ 6,910,587 | \$ 6,347,932 | \$ 4,858,078 | \$ 11,119,671 |
| Ceded | 820,287 | 988,548 | 693,363 | 781,176 | 1,482,893 | 2,782,966 | 3,035,053 | 3,573,756 | 3,661,240 | 5,005,157 |
| Net earned | 3,144,554 | 3,490,639 | 3,608,556 | 3,724,406 | 3,154,253 | 3,206,452 | 3,875,534 | 2,774,176 | 1,196,838 | 6,114,514 |
| Unallocated Expenses | 699,866 | 823,925 | 1,011,447 | 500,023 | 491,097 | 511,435 | 834,879 | 1,043,955 | 1,043,955 | 951,912 |
| Estimated Claims and Expenses, End of Policy Year | | | | | | | | | | |
| Incurred | 1,356,676 | 2,323,530 | 2,355,190 | 2,743,272 | 2,814,919 | 3,279,429 | 3,757,004 | 2,646,000 | 6,053,719 | 4,172,509 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net incurred | 1,356,676 | 2,323,530 | 2,355,190 | 2,743,272 | 2,814,919 | 3,279,429 | 3,757,004 | 2,646,000 | 6,053,719 | 4,172,509 |
| Net Paid (Cumulative) as of: | | | | | | | | | | |
| End of policy year | 821,433 | 1,652,106 | 1,289,926 | 1,283,434 | 1,961,208 | 2,292,441 | 2,392,437 | 2,461,215 | 5,938,073 | 4,061,747 |
| One year later | 1,112,646 | 2,078,406 | 1,941,310 | 2,086,499 | 2,421,044 | 2,901,263 | 3,854,568 | 2,537,116 | 5,952,424 | - |
| Two years later | 1,113,339 | 2,094,797 | 1,984,312 | 2,136,765 | 2,560,422 | 3,017,901 | 4,115,513 | 2,448,220 | - | - |
| Three years later | 1,113,311 | 2,100,646 | 2,028,503 | 2,194,497 | 2,614,536 | 2,970,505 | 4,092,299 | - | - | - |
| Four years later | 1,113,585 | 1,992,197 | 2,029,907 | 2,195,381 | 2,612,215 | 2,987,820 | - | - | - | - |
| Five years later | 1,114,314 | 2,102,148 | 2,030,584 | 2,195,276 | 2,603,781 | - | - | - | - | - |
| Six years later | 1,114,135 | 2,000,444 | 2,033,168 | 2,195,276 | - | - | - | - | - | - |
| Seven years later | 1,118,338 | 2,000,905 | 2,097,414 | - | - | - | - | - | - | - |
| Eight years later | 1,117,936 | 2,000,462 | - | - | - | - | - | - | - | - |
| Nine years later | 1,116,135 | - | - | - | - | - | - | - | - | - |
| Estimated Ceded Claims and Expenses | - | - | - | - | - | - | - | - | - | - |

* Unaudited required supplementary information

South Dakota Public Assurance Alliance
Schedule of Claims Development Information - Property
For the Ten Years Ended December 31, 2023

| | 2014* | 2015* | 2016* | 2017* | 2018* | 2019* | 2020* | 2021* | 2022* | 2023 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Estimated Net Incurred Claims and Expenses | | | | | | | | | | |
| End of policy year | \$ 1,356,676 | \$ 2,323,530 | \$ 2,355,190 | \$ 2,743,272 | \$ 2,814,919 | \$ 3,279,429 | \$ 3,757,004 | \$ 2,646,000 | \$ 6,053,719 | \$ 4,172,509 |
| One year later | 1,151,000 | 2,127,371 | 2,027,622 | 2,327,695 | 2,781,310 | 3,137,411 | 3,910,970 | 2,558,024 | 5,972,864 | - |
| Two years later | 1,120,032 | 2,111,008 | 2,029,000 | 2,202,360 | 2,640,019 | 3,024,255 | 4,158,253 | 2,458,000 | - | - |
| Three years later | 1,118,571 | 2,107,638 | 2,036,223 | 2,196,000 | 2,616,619 | 2,971,418 | 4,128,000 | - | - | - |
| Four years later | 1,119,167 | 1,997,299 | 2,031,992 | 2,196,000 | 2,612,884 | 2,987,820 | - | - | - | - |
| Five years later | 1,120,242 | 2,106,312 | 2,031,105 | 2,195,276 | 2,603,781 | - | - | - | - | - |
| Six years later | 1,119,225 | 2,001,437 | 2,033,573 | 2,195,715 | - | - | - | - | - | - |
| Seven years later | 1,119,198 | 2,001,544 | 2,097,414 | - | - | - | - | - | - | - |
| Eight years later | 1,119,000 | 2,001,022 | - | - | - | - | - | - | - | - |
| Nine years later | 1,116,358 | - | - | - | - | - | - | - | - | - |
| Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy | (240,318) | (322,508) | (257,776) | (547,557) | (211,138) | (291,609) | 370,996 | (188,000) | (80,855) | - |

South Dakota Public Assurance Alliance
Reconciliation of Claims Liabilities by Type of Coverage
December 31, 2023 and 2022

| | Property | |
|--|--------------|--------------|
| | 2023 | 2022 |
| Unpaid losses and loss adjustment expense reserves, net, beginning of year | \$ 1,451,453 | \$ 1,158,136 |
| Incurring losses and loss adjustment expenses | | |
| Provision for insured events of the current year | 4,780,235 | 6,416,854 |
| Decrease in provision for insured events of prior years | (142,440) | 102,606 |
| Total Losses Incurred | 4,637,795 | 6,519,460 |
| Payments | | |
| Losses and loss adjustment expenses attributable to insured events of current and prior years | 3,082,735 | 6,226,143 |
| Total unpaid losses and loss adjustment expense reserves, net, end of year | \$ 3,006,513 | \$ 1,451,453 |
| | Casualty | |
| | 2023 | 2022 |
| Unpaid losses and loss adjustment expense reserves, net, beginning of year | \$ 2,709,594 | \$ 9,283,310 |
| Incurring losses and loss adjustment expenses | | |
| Provision for insured events of the current year | 5,102,996 | 4,991,812 |
| Increase in provision for insured events of prior years | (531,180) | (2,064,598) |
| Total Losses Incurred | 4,571,816 | 2,927,214 |
| Payments | | |
| Losses and loss adjustment expenses attributable to insured events of current and prior years | 4,464,943 | 9,500,930 |
| Total unpaid losses and loss adjustment expense reserves, net, end of year | \$ 2,816,467 | \$ 2,709,594 |

South Dakota Public Assurance Alliance
Reconciliation of Claims Liabilities by Type of Coverage
December 31, 2023 and 2022

| | Total | |
|--|--------------|---------------|
| | 2023 | 2022 |
| Unpaid losses and loss adjustment expense reserves, net, beginning of year | \$ 4,161,047 | \$ 10,441,446 |
| Incurred losses and loss adjustment expenses | | |
| Provision for insured events of the current year | 9,883,231 | 11,408,666 |
| Increase (decrease) in provision for insured events of prior years | (673,620) | (1,961,992) |
| Total Losses Incurred | 9,209,611 | 9,446,674 |
| Payments | | |
| Losses and loss adjustment expenses attributable to insured events of current and prior years | 7,547,678 | 15,727,073 |
| Total unpaid losses and loss adjustment expense reserves, net, end of year | \$ 5,822,980 | \$ 4,161,047 |



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
Sioux Falls, 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 (*Government Auditing Standards*), the financial statements of South Dakota Public Assurance Alliance (the Pool) which comprise the statement of net position as of December 31, 2023, 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 15, 2024.

Report on Internal Control over Financial Reporting

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

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 over financial reporting, 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

Government Auditing Standards requires the auditor to perform limited procedures on the Pool's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. 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 the response.

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
July 15, 2024

**2023-001 Preparation of Financial Statements
Significant Deficiency**

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 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 - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

View of Responsible Officials - Eide Bailly cites that the Pool 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. The Pool management notes that this practice is not unusual for organizations of our size. The Pool's accounting services provider performs the Pool'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. The Pool 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.