

**SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND  
LIQUIDATION CAPTIVE INSURANCE COMPANY, LLC**

**AUDIT REPORT**

**For the Year Ended December 31, 2016**



**State of South Dakota  
Department of Legislative Audit  
427 South Chapelle  
% 500 East Capitol  
Pierre, SD 57501-5070**

SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION CAPTIVE  
INSURANCE COMPANY, LLC  
OFFICIALS  
December 31, 2016

Board of Managers:

Board President, Bret Afdahl  
Vice President, Marcia Hultman  
Secretary/Treasurer, Scott Kelly

Manager South Dakota Captive Insurance Companies:

Megan Mercer

Director, Division of Administrative Services, DLR:

Emily Ward

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SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION CAPTIVE INSURANCE  
COMPANY, LLC  
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427 SOUTH CHAPELLE  
C/O 500 EAST CAPITOL  
PIERRE SD 57501-5070  
(605) 773-3595

MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

**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**

The Honorable Dennis Dugaard  
Governor of South Dakota

and

Board of Managers  
South Dakota Trust Company Receivership and Liquidation Captive Insurance Company, LLC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company, a component unit of the State of South Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company's basic financial statements, and have issued our report thereon dated June 29, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company'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 entity'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. 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 been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company'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 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with a large initial "M" and "G".

Martin L. Guindon, CPA  
Auditor General

June 29, 2017



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(605) 773-3595

MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard  
Governor of South Dakota

and

Board of Managers  
South Dakota Trust Company Receivership and Liquidation Captive Insurance Company, LLC

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company, a component unit of the State of South Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company as of December 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Ten-Year Claims Development Information on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017 on our consideration of the South Dakota Trust Company Receivership and Liquidation Captive Insurance Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Trust Company Receivership and Liquidation Captive Insurance Company's internal control over financial reporting and compliance.



Martin L. Guindon, CPA  
Auditor General

June 29, 2017

**SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION CAPTIVE INSURANCE COMPANY, LLC**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2016**

<b>Assets</b>	
Current Assets	
Cash and Cash Equivalents	\$ 2,228,114
<b>Total Assets</b>	<b>\$ 2,228,114</b>
<b>Liabilities</b>	
Current Liabilities	
Accounts Payable	\$ 5,314
Total Current Liabilities	\$ 5,314
<b>Total Liabilities</b>	<b>\$ 5,314</b>
<b>Net Position</b>	
Unrestricted	\$ 2,222,800
<b>Total Net Position</b>	<b>\$ 2,222,800</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 2,228,114</b>

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



**SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION CAPTIVE INSURANCE COMPANY, LLC**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Year Ended DECEMBER 31, 2016**

<b>Operating Revenue</b>	
Reinsurance Premiums Ceded	\$ (314)
Net Earned Premiums	<u>\$ (314)</u>
<b>Operating Expense</b>	
Supervision Fee	\$ 5,000
Total Operating Expenses	<u>\$ 5,000</u>
<b>Operating Income (Loss)</b>	<b>\$ (5,314)</b>
<b>Nonoperating Revenue (Expenses)</b>	
Capital Contribution	\$ 2,220,000
Interest Proration	\$ 8,114
<b>Total Nonoperating Revenue (Expenses)</b>	<b><u>\$ 2,228,114</u></b>
<b>Change in Net Position</b>	<b>\$ 2,222,800</b>
Net Position at Beginning of Year	<u>\$ -</u>
<b>Net Position at End of Year</b>	<b><u>\$ 2,222,800</u></b>

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

**SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION CAPTIVE INSURANCE COMPANY, LLC**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended DECEMBER 31, 2016**

**Cash Flows from Noncapital Financing Activities**

Capital Contribution	\$	2,220,000
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>\$</b>	<b>2,220,000</b>

**Cash Flows from Investing Activities**

Interest Proration Revenue	\$	8,114
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>\$</b>	<b>8,114</b>

**Net Increase (Decrease) in Cash and Cash Equivalents**

<b>During the Fiscal Year</b>	<b>\$</b>	<b>2,228,114</b>
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Cash and Cash Equivalents at Beginning of Year	\$	-
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$</b>	<b>2,228,114</b>

**Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities**

Operating Income (Loss)	\$	(5,314)
<b>Increase/(Decrease) in Liabilities</b>		
Accounts Payable	\$	5,314
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$</b>	<b>-</b>

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

**SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION CAPTIVE INSURANCE  
COMPANY, LLC  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**Note 1 – Organization**

The South Dakota Trust Company Receivership and Liquidation Captive Insurance Company, LLC (Captive), a nonprofit limited liability company, was established December 31, 2016. The Captive was established to provide insurance to pay for losses if the Director of the South Dakota Department of Labor and Regulation, Division of Banking (Division) must take over a trust company chartered and regulated by the Division. This includes administrative and reinsurance costs. The Captive is a pure captive.

The Captive is governed by a three member Board of Managers who serves as the officers of the Captive. The Captive Board of Managers holds regularly scheduled meetings in June and November each year. Special meetings of the Board may be called by the Board or by the President of the Board. The State of South Dakota Office of Risk Management serves as the manager and performs necessary functions such as underwriting, billing and collecting premiums, investigating and settling claims, and reporting.

The Captive is a business type component unit of the State of South Dakota. As such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

**Note 2 – Summary of Significant Accounting Policies**

**Fund Accounting**

The Captive is accounted for as a proprietary type enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises.

**Basis of Accounting**

The accompanying financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

**Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings, are reported as nonoperating.

**SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION CAPTIVE INSURANCE  
COMPANY, LLC  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents**

Cash and cash equivalents represent the Captive's participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value. The investment income included is estimated investment income for the period beginning September 7, 2016 when funds were deposited into the fund through December 31, 2016. The estimated investment income is based on the average daily cash balance and the projected investment earnings rate. Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, SD 57501.

**Reserve for Claims and Claim Adjustment Expenses**

The Captive established the reserve for claims and claim adjustment expenses based on the estimated ultimate cost of settling the claims. This includes claims that have been reported but not settled, and claims that have been incurred but not reported. Costs of claims include losses, allocated claim adjustment expenses, and unallocated claim adjustment expenses. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the unpaid claims liability. There are no trusts for which take-over proceedings are anticipated for the year ended December 31, 2016.

**Premium Revenue**

Premiums billed are recognized as revenue over the term of the insurance policies. The Captive has determined there are no unearned premiums at December 31, 2016. The Captive does not consider anticipated investment income in determining if a premium deficiency exists.

**Capital Contributions**

The 2016 Legislature approved HB 1042 which appropriated \$2,220,000 from the banking special revenue fund for the purpose of trust company receivership and liquidation coverage. The entire amount was recognized as revenue for the year ended December 31, 2016.

**Grant Agreement**

HB1042 approved by the 2016 Legislature created the trust company receivership and liquidation captive insurance company fund, which the \$2,220,000 appropriation was deposited into. This fund is to pay for trust company receivership and liquidation costs for trust companies chartered and regulated by the Division as well as administrative and reinsurance costs. Section 13.2 of the Captive's Company Agreement states that upon dissolution, any remaining assets of the Board

**SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION CAPTIVE INSURANCE  
COMPANY, LLC  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

shall be distributed to the State of South Dakota, less the reasonable and necessary expenses of winding up the Captive’s affairs and less any amounts required to be maintained on account of claims or potential claims or otherwise required by the South Dakota Division of Insurance or any successor regulatory entity. Upon a final determination by a regulatory body with jurisdiction that no further claims reserves are required to be held, any remaining balance of the grant shall be paid to the State of South Dakota.

**Reinsurance Premiums**

Reinsurance premiums are netted against gross premiums over the terms of the insurance policies. Prepaid reinsurance premium is established to reflect premiums paid applicable to future accounting periods.

**Note 3 – Insurance Activity**

Premiums written for the year ended December 31, 2016 were as follows:

	2016
Premiums Written	\$ -
Premiums Ceded	(314)
Net Premiums Written	\$ (314)

The Captive provides coverage for trust company administration and examination wind-down expenses for trust companies regulated by the Division of which it takes charge or possession. The Captive only pays losses in excess of recoveries from trust company assets. The Captive will retain the first one hundred thousand dollars of losses and has entered into a reinsurance agreement to cover claims exceeding \$100,000 with a limit of \$2,000,000. The Captive started writing coverage December 31, 2016. The first policy covers the period December 31, 2016 to December 31, 2017. Thereafter, the Captive’s and reinsurer’s policies will be written on a calendar year basis.

The amount of claims is projected by an actuarial firm. The premium is based on estimated claims plus administrative costs. Billings are prepared and sent to the Division on an annual basis.

**SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION CAPTIVE INSURANCE  
COMPANY, LLC  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**Note 4 – Regulatory Requirements**

The South Dakota Trust Company Receivership and Liquidation Captive Insurance Company, LLC is formed as a non-profit LLC under the laws of the State of South Dakota. As the registered agent for the Captive, the State of South Dakota Office of Risk Management is responsible for filing an annual report with the South Dakota Secretary of State. The annual report is due at the beginning of the month in which the company was formed. The annual report for the Captive is due each year by November 1.

The Captive is required to submit audited financial statements to the South Dakota Division of Insurance by June 30 each year. An actuarial report is required to accompany the financial statements.

**Note 5 – Subsequent Events**

Management has evaluated subsequent events for disclosure through the report date, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having an impact on the financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH DAKOTA TRUST COMPANY RECEIVERSHIP AND LIQUIDATION  
CAPTIVE INSURANCE COMPANY, LLC  
Ten-Year Claims Development Information  
For the Fiscal and Policy Year Ended December 31, 2016**

	<u>2016</u>
1. Required contribution and investment revenue:	
Earned	
Ceded	(314)
Net earned	<u>(314)</u>
Investment revenue	8,114
2. Unallocated expenses	5,000
3. Estimated claims and expenses, end of policy year:	
Incurred	-
Ceded	-
Net incurred	<u>-</u>
4. Net Paid (cumulative) as of:	
End of policy year	-
5. Reestimated ceded claims and expenses	-
6. Reestimated net incurred claims and expenses:	
End of policy year	-
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	-

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information will be presented for the years in which it is available.