



Financial Statements  
June 30, 2023

# Northern Plains Insurance Pool

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## Independent Auditor's Report

To the Board of Trustees  
Northern Plains Insurance Pool  
Sioux Falls, South Dakota

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the business-type activities of Northern Plains Insurance Pool (the Pool), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the financial position of the Pool as of and for the year ended June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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 the Pool and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the Pool'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 the Pool'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 the Pool'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 ten-year schedule of claims development information 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 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.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires 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 January 8, 2024, on our consideration of the Pool'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 Pool'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 Pool's internal control over financial reporting and compliance.



Fargo, North Dakota  
January 8, 2024

Northern Plains Insurance Pool  
Statement of Net Position  
June 30, 2023

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Assets

Current Assets

|                                 |               |
|---------------------------------|---------------|
| Cash and cash equivalents       | \$ 3,703,999  |
| Investments                     | 8,966,529     |
| Member contribution receivables | 744,452       |
| Prepaid expenses                | <u>24,602</u> |

Total assets \$ 13,439,582

Liabilities and Net Position

Current Liabilities

|  |               |
|--|---------------|
| Estimated liability for reported and unreported<br>claims and claims adjustment expenses | \$ 2,003,000  |
| Advance member contributions   | 2,152,262     |
| Accounts payable   | <u>40,560</u> |

Total current liabilities 4,195,822

Net Position

Unrestricted 9,243,760

Total liabilities and net position \$ 13,439,582

Northern Plains Insurance Pool  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2023

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|   |                            |
|---|----------------------------|
| Operating Revenues                                  |                            |
| Member contributions earned                         | \$ 27,974,909              |
| Less reinsurance premiums ceded                     | <u>(1,260,705)</u>         |
| Net operating revenues                              | <u>26,714,204</u>          |
| Operating Expenses                                  |                            |
| Claims and claims adjustment expenses incurred, net | 23,880,583                 |
| Administrative and services fees                    | 2,248,793                  |
| Stop loss claims ceded                              | (608,667)                  |
| Professional fees                                   | 314,485                    |
| Insurance   | 30,396                     |
| Other   | <u>58,357</u>              |
| Total operating expenses                            | <u>25,923,947</u>          |
| Operating Gain                                      | 790,257                    |
| Nonoperating Revenues                               |                            |
| Investment income                                   | 234,996                    |
| Net unrealized gain                                 | <u>11,587</u>              |
| Total nonoperating revenues                         | <u>246,583</u>             |
| Change in Net Position                              | 1,036,840                  |
| Net Position - Beginning                            | <u>8,206,920</u>           |
| Net Position - Ending                               | <u><u>\$ 9,243,760</u></u> |

Northern Plains Insurance Pool  
Statement of Cash Flows  
Year Ended June 30, 2023

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|   |                              |
|---|------------------------------|
| Operating Activities  |                              |
| Contributions received  | \$ 27,647,579                |
| Reinsurance premiums paid   | (1,260,705)                  |
| Stop loss claims received   | 608,667                      |
| Administrative and expenses of operations paid  | (4,710,032)                  |
| Claims and claims adjustment expenses paid  | <u>(24,302,583)</u>          |
| Net cash used for operating activities  | <u>(2,017,074)</u>           |
| Investing Activities  |                              |
| Interest income   | 492,166                      |
| Purchase of investments   | <u>(1,395,743)</u>           |
| Net cash used for investing activities  | <u>(903,577)</u>             |
| Net Change in Cash and Cash Equivalents   | (2,920,651)                  |
| Cash and Cash Equivalents, Beginning of Year  | <u>6,624,650</u>             |
| Cash and Cash Equivalents, End of Year  | <u><u>\$ 3,703,999</u></u>   |
| Reconciliation of Operating Gain to Net Cash Used For Operating Activities            |                              |
| Operating gain  | \$ 790,257                   |
| (Increase) decrease in assets   |                              |
| Receivables   | (490,513)                    |
| Prepaid expense   | 72,383                       |
| Increase (decrease) in liabilities  |                              |
| Estimated liability for reported and unreported claims and claims adjustment expenses | (422,000)                    |
| Accounts payable  | (386,655)                    |
| Advance member contributions  | 157,503                      |
| Buy-in liability  | <u>(1,738,049)</u>           |
| Net cash used for operating activities  | <u><u>\$ (2,017,074)</u></u> |



**Note 1 - Summary of Significant Accounting Policies****Financial Reporting Pool**

The Northern Plains Insurance Pool (Pool) is a Joint Power Authority authorized by South Dakota Codified Law (SDCL) 1-24, SDCL 13-10-3 and SDCL 13-10-9. The Pool is governed by a Joint Powers Agreement and Bylaws (Bylaws) established on April 1, 2017. The primary purpose of the Pool is to jointly provide for the security and welfare of their eligible employees (and certain others covered through those eligible employees) by the establishment and maintenance of the group health or welfare plan or plans that are jointly sponsored by the governmental units in the Pool. To be eligible for membership, an applicant must be a governmental unit and a member of the Northern Plains Insurance Pool. There were 54 members of the Pool as of June 30, 2023, which were school districts in the State of South Dakota. The objective of the Pool is to formulate, develop, and administer on behalf of the member organizations, a program of health coverage through pooling risks, self-insurance and joint purchases of insurance. As a result, the Pool initiated a health benefit plan that began on July 1, 2017. In order to begin operations, the Pool utilized member buy-ins and member contributions paid in advance, in addition to resources accumulated in the members' prior arrangement which totaled \$603,800 as of July 1, 2017.

The Pool operates as a single proprietary fund, more specifically as a business-type activity. 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 noncapital financing activities.

The Pool is exposed to various risks of loss related to torts and errors and omissions. The Pool has commercial insurance to mitigate its risks.

The Pool's contract with its members requires the members meet an annual participation requirement of seventy five percent of total eligible employees as defined by the benefits plan or plans. A member may voluntarily terminate participation in a plan funded through the Pool effective as of the close of any Plan Year following completion of the member's initial participation period as defined by the Joint Powers Agreement.

In the event of termination or dissolution of the Pool, the affairs of the Pool shall be wound up as soon as may be reasonably practicable and the assets, or the liquidation proceeds, shall be paid out and distributed in the following order: (1) administration expenses, (2) amounts payable to beneficiaries, and lastly (3) reversion to members.

**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 Pool 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. Material estimates that are particularly susceptible to significant change in the near-term relate to the estimated liability for reported and unreported claims and claims adjustment expenses and amounts recoverable from reinsurers under excess of loss and aggregate coverages.

**Cash, Cash Equivalents, and Investments**

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments classified in the financial statements consist primarily of certificates of deposits whose term to maturity at date of acquisition exceeds three months, and those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

**Receivables**

Receivables are recorded based on amounts due from members and other third-party payers, and amounts estimated to be received or recovered from reinsurers and other third-party payers. The Pool evaluates the collectability of such receivables monthly based on the reinsurers, members or other 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.

**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 are estimated in a manner consistent with the development of the estimated liability for reported and unreported claims and claims adjustment.

**Income Taxes**

The Pool's income is excludable from income tax under section 115 of the Internal Revenue Code. A private letter ruling on the Pool's tax-exempt status has not been requested.

**Operating Revenues**

Members are billed monthly in advance for member contributions. Income from such contributions is recorded as earned during the coverage period. Contributions received in advance for coverage in the following policy year are recorded as advance member contributions. Revenue is reduced by reinsurance premiums ceded to reinsurance companies. Losses are reduced by stop losses ceded.

**Premium Deficiency**

A premium 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 advance member contributions. The Pool anticipates investment income in determining if a premium deficiency exists. As of June 30, 2023, there was no premium deficiency reserve recorded.

**Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses**

The coverage offered by the Pool is on the occurrence basis. Occurrence basis coverage provides for payment of claims that occur during the period of coverage regardless of when the claim is reported. The Pool has a provision that pertains to terminating members in each of its member participation agreements, whereby the Pool will only provide coverage for all eligible claims received and paid by its claims administrator prior to the date of the termination of coverage. Management has determined that no reduction in the estimated liability for reported and unreported claims and claims adjustment expenses is required as of June 30, 2023 for terminated members. There were four that terminated membership during the year ended June 30, 2023. The estimated liability for reported and unreported claims and claims 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. The liability includes estimates of the costs to settle individual claims which have been reported, plus a provision for claims and costs incurred but not yet reported. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management of the Pool believes the estimated liability for reported and unreported claims and claims adjustment expenses 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. An independent actuary assisted management with the establishment of estimated claims liabilities for the year ended June 30, 2023.

**Subrogation Recoverables**

Claims are reduced for subrogation when payment is received, as subrogation amounts are immaterial. There was no change in assumptions used in the current year to create the liability. 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.

**Net Position**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the financial statements. The Pool has no deferred inflows or outflows of resources.

Any surplus monies for a fiscal year in excess of the amount necessary to fulfill all obligations of the Pool for that year may be refunded to the members at the discretion of the Executive Board. Dividends were not declared by the Executive Board during the fiscal year ended June 30, 2023. Discretionary dividends are reported as an expense of the Fund in the year declared.

*Enterprise Funds* - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit-even if that government is not expected to make any payments-is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Equity is classified as Net Position and is displayed in two components:

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

### **Buy-in Liability**

At the annual meeting during March 2023, the Board approved to reduce to zero the Pool membership buy-in requirement for all new members and approved to refund all prior Pool memberships held in a reserve to its members in lieu of an annual distribution. The refunds were issued in May 2023 thereby eliminating any current liability in this area.

**Note 2 - Deposits and Investments Fair Value Measurement, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk**

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The Pool's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1 and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits funds to be invested 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); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Fair Value Measurement - The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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 Pool has the following recurring fair value measurements as of June 30, 2023:

- U.S. Treasury Bills - Level 1, valued on active markets
- U.S. Treasury Notes - Level 1, valued on active markets
- Money Market Funds - Level 1, valued on active markets
- Negotiable Certificates of Deposits - Level 1, valued on active markets
- Fixed Income Mutual Funds - Level 1, valued on active markets
- Municipal Bonds - Level 2, valued on other markets

Credit Risk - State law limits eligible investments for the Pool, as discussed above. The Pool's investment policy does not further limit its investment choices.

As of June 30, 2023, the Pool had the following investments:

| Investment  | Credit Rating | Fair Value   |
|---|---------------|--------------|
| U.S. Treasury Bills                                     | AAA           | \$ 6,717,618 |
| Money Market Funds                                      | AAA           | 424,917      |
| U.S. Government Securities -<br>Short-Term Mutual Funds | AAA           | 1,823,994    |
| Total investments                                       |               | \$ 8,966,529 |

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the Pool's deposits may not be returned to it.

At June 30, 2023, none of the Pool's deposits in financial institutions were exposed to custodial credit risk.

Interest Rate Risk - The Pool does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - The Pool places no limit on the amount that may be invested in any one issuer.

**Concentration of Credit Risk**

The Pool places no limit on the amount that may be invest in any one issuer. The Pool maintains its cash in bank deposit accounts which exceed federally insured limits. Amounts guaranteed by the Federal Deposit Insurance Coproration (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2023, the Pool had approximately \$12.3M in excess of FDIC-insured limits.

**Note 3 - Service Agreements**

Wellmark Inc. is engaged as the Pool's third-party administrator (TPA) to provide health claims administration services. The agreements provide that the TPA be paid a claim administration fee based on various performance measurements including formulas based on per employee per month, hourly activity, and percentages of savings. Total fees incurred under the agreements was \$494,483 in 2023. These fees are claims adjustment expenses in the statement of revenue, expenses, and changes in net position.

**Note 4 - Reinsurance**

The Pool utilizes a reinsurance agreement to limit maximum loss and minimize exposures oil larger risk. During the year ended June 30, 2023, the Pool utilized one reinsurance agreement for health (medical, including prescription drugs), whereby all members are covered under a reinsurance agreement with a \$300,000 attachment point.

The Pool would be liable for any obligations that the reinsurance company are unable to meet under the reinsurance agreement. During the year ended June 30, 2023, claims expenses were reduced by \$608,667 due to recoveries from the reinsurance companies under contract.

**Note 5 - Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expense**

The Pool establishes liabilities for both reported and unreported covered events, which includes estimates of both future payments of claims and related claims adjustments expenses. The following is a summary of the change in those aggregate liabilities for the year ended June 30, 2023.

|   |                     |
|---|---------------------|
| Reported and unreported claims and claims adjustment expense liabilities at beginning of year       | \$ 2,425,000        |
| Incurred claims and claims adjustment expenses provision for insured events of the current year     | 22,177,062          |
| Payment of claims and claims adjustments expense attributable to insured events of the current year | <u>(22,599,062)</u> |
| Reported and unreported claims and claims adjustment expense liabilities at end of year             | <u>\$ 2,003,000</u> |

**Note 6 - Related Party Transactions**

The Pool is managed by a Board that consists of a representative from each member participating in the Pool. The Board has elected an Executive Board from its members who manage the operations of the Pool including engaging service providers to operate the Pool. The Executive Board is paid mileage to attend the meetings that are held quarterly. Total mileage paid during the year ended June 30, 2023 was \$3,480.

**Note 7 - Contractual Obligations**

The Pool has engaged with Marsh & McLennan Agency LLC Company to provide consultation and risk management services of insurance programs and provide other services as requested by the Executive Board. For the year ended June 30, 2023, Marsh & McLennan Agency LLC Company was paid \$13 per covered employee per month for the twelve-month period. Total fees paid under this contract for the year ended June 30, 2023 were \$381,092.

**Note 8 - Subsequent Event**

The Pool has evaluated for subsequent events through January 8, 2024, the date which the financial statements were available to be issued and is not aware of any events which would require recognition or disclosure in the financial statements.





Required Supplementary Information  
June 30, 2023

# Northern Plains Insurance Pool

Northern Plains Insurance Pool  
Ten-Year Schedule of Claims Development  
June 30, 2023

|   | 2018          | 2019          | 2020          | 2021         | 2022         | 2023         |
|---|---------------|---------------|---------------|--------------|--------------|--------------|
| Net Earned Member Contributions and Investment Income:                                    |               |               |               |              |              |              |
| Earned  | \$ 24,542,479 | \$ 25,502,671 | \$ 25,406,543 | \$25,830,927 | \$26,568,031 | \$27,974,909 |
| Ceded   | (1,211,845)   | (1,698,738)   | (1,358,535)   | (1,544,396)  | (1,369,193)  | (1,260,705)  |
| Net earned  | 23,330,634    | 23,803,933    | 24,048,008    | 24,286,531   | 25,198,838   | 26,714,204   |
| Unallocated expenses  | 1,203,614     | 1,330,187     | 1,290,085     | 1,424,251    | 1,626,234    | 2,652,031    |
| Estimated Claims and Expenses, End of Policy Year:  |               |               |               |              |              |              |
| Incurred  | \$ 17,058,014 | \$ 19,250,616 | \$ 22,089,633 | \$27,811,349 | \$22,101,325 | \$25,699,685 |
| Ceded   | -             | (235,715)     | (444,491)     | (4,839,952)  | (248,359)    | 608,667      |
| Net incurred  | 17,058,014    | 19,014,901    | 21,645,142    | 22,971,397   | 21,852,966   | 26,308,352   |
| Net Paid (Cumulative) as of:  |               |               |               |              |              |              |
| End of policy year  | \$15,288,639  | \$17,677,710  | \$18,654,863  | \$23,905,223 | \$20,193,393 | \$24,011,681 |
| One year later  | 17,042,571    | 19,824,423    | 21,982,758    | 26,239,777   | 21,645,821   | -            |
| Two years later   | 17,046,983    | 20,332,653    | 21,986,124    | 26,238,642   | -            | -            |
| Reestimated Ceded Claims and Expenses   | -             | 235,715       | 444,491       | 4,839,952    | 248,359      | 607,925      |
| Reestimated Net Incurred Claims and Expenses:   |               |               |               |              |              |              |
| End of policy year  | 17,058,014    | 19,014,901    | 21,645,142    | 22,971,397   | 21,852,966   | 25,091,760   |
| One year later  | 17,042,571    | 19,824,423    | 21,982,758    | 26,239,777   | 21,645,821   | -            |
| Two years later   | 17,046,983    | 20,332,653    | 21,986,124    | 26,238,642   | -            | -            |
| Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year | \$ (11,031)   | \$ 1,317,752  | \$ 337,616    | \$ 3,268,380 | \$ (207,145) | \$ -         |

\* The year ending June 30, 2023 is the Pool's sixth year of operations; therefore, only six years are reported. Ultimately, this schedule will show ten-years of accumulated data.



Additional Reports  
June 30, 2023

# Northern Plains Insurance Pool



**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 Executive Member Board  
Northern Plains Insurance Pool  
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 the business-type activities of Northern Plains Insurance Pool (Pool), as of and for the year then ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Pool’s basic financial statements and have issued our report thereon dated January 8, 2024.

**Report on Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001, 2023-002, and 2023-003 that we consider to be material weaknesses.

## **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 other 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 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 1-24-17.1, this report is a matter of public record and its distribution is not limited.



Fargo, North Dakota  
January 8, 2024

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**Section I – Financial Statement Findings**

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**2023-001      Segregation of Duties  
Material Weaknesses**

*Criteria* – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping and reconciliation functions.

*Condition* – The Pool’s third-party accountant has the ability to complete all of the duties related to receipt and disbursement transactions. Also, a formal review of adjusting journal entries does not take place.

*Cause* – There is a limited amount of individuals involved in the internal control process.

*Effect* – Inadequate segregation of duties could adversely affect the Pool's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by individuals in the normal course of performing their assigned functions.

*Recommendation* – We recommend the Pool’s Executive Member Board be cognizant of this lack of segregation of duties for receipts and disbursements, as well as adjusting journal entries, and attempt to provide compensating controls whenever and wherever possible and practical. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

*Views of Responsible Officials* – Management agrees with the finding.

**2023-002      Preparation of Financial Statements  
Material Weakness**

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

*Condition* – The Pool does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompany 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 disclosures in the financial statements could be incomplete.

*Recommendation* – The Executive Member board should continually be aware of the financial reporting of the Pool and changes in reporting requirements.

*Views of Responsible Officials* – Management agrees with the finding.

**2023-003      Material Journal Entries  
Material Weakness**

*Criteria* – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

*Condition* – During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the Pool’s existing internal controls, and therefore could have resulted in a material misstatement of the Pool’s financial statements.

*Cause* – The Pool does not have an internal control system designed to identify all necessary adjustments.

*Effect* – This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

*Recommendation* – The Pool should ensure a thorough review and reconciliation of accounts takes place prior to the beginning of the audit.

*Views of Responsible Officials* – Management agrees with the finding.