



Financial Statements

December 31, 2024 and 2023

The Health Pool of South Dakota

The Health Pool of South Dakota

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December 31, 2024 and 2023

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Independent Auditor's Report

To the Board of Trustees
The Health Pool of South Dakota
Fort Pierre, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Health Pool of South Dakota (the Pool), as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise The Health Pool of South Dakota'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 respective financial position of The Health Pool of South Dakota as of December 31, 2024 and 2023, 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 Opinion

We conducted our audits 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 Health Pool of South Dakota 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Health Pool of South Dakota'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 Health Pool of South Dakota'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 Health Pool of South Dakota'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 Schedule of Contribution and Claims Development Information 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 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 are not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2025, on our consideration of The Health Pool of South Dakota'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 The Health Pool of South Dakota'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 The Health Pool of South Dakota's internal control over financial reporting and compliance.

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

Fargo, North Dakota
August 11, 2025

The Health Pool of South Dakota

Statements of Net Position December 31, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,640,862	\$ 3,083,458
Short-term investments		
Certificates of deposit	376,658	295,100
Debt and equity securities	3,575,298	3,497,761
Receivables		
Member contributions	9,822	6,816
Investment income	24,875	20,268
Pharmacy rebates	352,539	276,991
Receivable from claims administrator	162,909	-
Prepaid expenses	877	970
Total current assets	8,143,840	7,181,364
Long-Term Investments		
Certificates of deposit	872,999	593,681
Debt and equity securities	478,327	580,840
Total long-term investments	1,351,326	1,174,521
Total Assets	\$ 9,495,166	\$ 8,355,885
Liabilities and Net Position		
Current Liabilities		
Estimated liability for reported and unreported loss and loss adjustment expense	\$ 740,000	\$ 640,000
Payable to claims administrator	-	254,300
Advance member contributions	25,628	20,741
Accrued expenses	30,916	27,722
Total current liabilities	796,544	942,763
Net Position		
Unrestricted	8,698,622	7,413,122
Total Liabilities and Net Position	\$ 9,495,166	\$ 8,355,885

The Health Pool of South Dakota
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2024 and 2023

	2024	2023
Operating Revenues		
Member contributions earned	\$ 10,155,304	\$ 8,776,392
Less: reinsurance premiums ceded	<u>(1,545,778)</u>	<u>(1,204,975)</u>
Net operating revenues	<u>8,609,526</u>	<u>7,571,417</u>
Operating Expenses		
Net claims and claims adjustment expenses incurred		
Claims and claims adjustment expenses incurred	9,581,494	8,578,693
Reinsurance recoveries	<u>(2,277,979)</u>	<u>(1,554,281)</u>
Total claims and claims adjustment expenses incurred, net	<u>7,303,515</u>	<u>7,024,412</u>
General and administrative expenses		
Ancillary services expense	101,723	95,840
Accounting fees	46,412	25,110
Service fee	29,556	28,584
Sponsorship fee	16,149	15,619
Other expense	968	3,893
Advertising	6,059	5,586
Bonds and insurance	1,847	1,731
Affordable Care Act fees	4,106	3,519
Board of Trustee fees and expenses	<u>4,429</u>	<u>6,631</u>
Total general and administrative expenses	<u>211,249</u>	<u>186,513</u>
Operating Income	<u>1,094,762</u>	<u>360,492</u>
Other Income		
Net investment income	79,934	139,173
Net unrealized gain on investments	<u>110,804</u>	<u>107,530</u>
Total other income	<u>190,738</u>	<u>246,703</u>
Change in Net Position	1,285,500	607,195
Net Position, Beginning of Year	<u>7,413,122</u>	<u>6,805,927</u>
Net Position, End of Year	<u><u>\$ 8,698,622</u></u>	<u><u>\$ 7,413,122</u></u>

The Health Pool of South Dakota
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Contributions received	\$ 10,157,185	\$ 8,827,047
Reinsurance premiums paid	(1,542,584)	(1,212,840)
Underwriting and expenses of operations paid	(703,913)	(23,077)
Claims and claims adjustment expenses paid	(7,203,515)	(7,264,412)
Net cash provided by operating activities	707,173	326,718
Cash Flows from Investing Activities		
Debt and equity securities		
Sales and maturities	1,477,525	821,094
Purchases	(1,702,621)	(1,453,785)
Investment income received, net of investment expenses	75,327	106,083
Net cash used for investing activities	(149,769)	(526,608)
Net Change in Cash and Cash Equivalents	557,404	(199,890)
Cash and Cash Equivalents, Beginning of Year	3,083,458	3,283,348
Cash and Cash Equivalents, End of Year	\$ 3,640,862	\$ 3,083,458
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,094,762	\$ 360,492
Adjustments to reconcile operating gain to net cash from operating activities		
Increase (decrease) in assets		
Contributions receivable	(3,006)	87,604
Reinsurance recoverable on paid losses	(75,548)	(41,762)
Prepaid expenses	93	2,248
Receivable from claims administrator	(162,909)	-
Increase (decrease) in liabilities		
Losses and loss adjustment expense reserves	100,000	(240,000)
Accounts payable and accrued expenses	(251,106)	195,085
Unearned contributions	4,887	(36,949)
Net Cash Provided by Operating Activities	\$ 707,173	\$ 326,718
Supplemental Disclosure of Noncash Investing and Financing Activity		
Net increase in the fair value of investments	\$ 110,804	\$ 107,530

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

The Health Pool of South Dakota (Pool) provides health and other health related coverages for member organizations. There were 86 and 79 members of the Pool as of December 31, 2024 and 2023, respectively, all of which were cities, counties, townships and special districts of the State of South Dakota. The objective of the Pool is to provide and implement group health coverage and health maintenance cost containment programs and procedures to employees of South Dakota public agencies. The Pool is supervised by a Board of Trustees consisting of up to seven 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.

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's bylaws contain a provision stating that if a series of claims exhaust the Pool's net position, then the payment of those claims will be the sole and separate obligation of the individual member or members against whom the claim is made and perfected by litigation or settlement. Members agree to continue membership in the Pool for a period of not less than twelve months from a renewal date of January 1, and may withdraw from the Pool by giving written notice to the Pool no later than 60 days prior to January 1.

Upon the effective date of termination (for cause), all coverages and benefits hereunder shall cease. Any unpaid claims as of that date ("Runout Claims") become the sole responsibility of the terminated member, without regard to either (i) the date the claim accrued; or (ii) the ratio of the terminated member's aggregate payments to aggregate paid claims. The member shall indemnify the Pool and hold it harmless for any runout claims paid by the Pool's third-party administrator. The Pool's membership specifically intends that a terminated member will not receive any benefits from the Pool after the date of its termination, without regard to the date a claim accrued.

If the terminated member's claims ratio is less than 1:1 (and the termination is due to a lack of enrolled employees), the board may, at its discretion, allow the Pool to pay the terminated member's otherwise ineligible claims, provided the Member agrees in writing to make regular payments to the Pool as follows: (i) in an amount at least equal to its monthly installment as of the date of its termination; (2) until such time as the member has fully indemnified the Pool for all paid claims; and (3) under such other conditions as the board may reasonably impose for the protection of the Pool and its members.

Coverage and benefits for any claims accruing prior to the member's withdrawal will continue to be paid following the withdrawal, but only to the extent the withdrawing member's ratio of aggregate payments to the Pool to its aggregate paid claims ("Claims Ratio") remains greater than 1:1. Any claims that result in a Claims Ratio of less than 1:1 are the sole responsibility of the withdrawing member, and that member shall indemnify the Pool and hold it harmless for any such claims paid by the Pool's third-party administrator. The Pool's membership specifically intends that a withdrawing member will not receive an aggregate benefit from the Pool in excess of a 1:1 Claims Ratio.

The Pool assumes no liability for payment of claims by virtue of servicing claims for members that terminate or withdraw from the Pool. At the request of the withdrawing member, the Pool will continue to service all claims which had been reported to the Pool during the withdrawing member's period of participation, so long as the withdrawing member promptly repays the Pool for all claims and claim expenses incurred.

In the event the Pool's unrestricted net position totals at least \$15,000,000, the Board of Trustees shall establish a Member Equity Account to be determined at the end of the Pool's related calendar year. Any surplus monies (net position) or amounts in an individual Member Equity Account (if such account has been established) for a calendar year in excess of the amount necessary to fulfill all obligations of the Pool for that year may be refunded by the Board of Trustees, at a time agreed to by the Board of Trustees. Any surplus monies may also be retained by the Pool for purposes of the Pool and such a determination shall be at the complete discretion of the Board of Trustees.

A withdrawing or terminated member shall have no right in or interest to any accrued or current excess contributions previously declared to be payable by the Board of Trustees or in any net position (equity) amounts or any amounts in the member equity account (provided a member equity account has been established), except that a withdrawing member shall have a right to receive the balance in its member equity account (if such account has been established), if at the time of payment the Pool's net operating revenues are less than three times the unrestricted net position of the Pool and the unrestricted net position remains at a level greater than \$15,000,000 considering the proposed payment of the scheduled amount(s). Payments from the member equity account upon withdrawal will be scheduled for payment in five equal annual installments. Any cumulative member equity amounts not deemed payable at the end of such five-year period under the provisions above will be allocated to other current members of the Pool under a method determined by the Board of Trustees. No member equity accounts have been established as of December 31, 2024 and 2023, respectively.

Upon termination of the Pool and after payment of all claims and losses, all remaining funds held by the Pool shall 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 Trustees. If upon termination of the Pool, the remaining assets of the Pool are insufficient to satisfy the indebtedness of the Pool (excluding claims or judgments against individual Members), such deficiency shall be made up by assessments against Members of the Pool by a fair and reasonable method established by the Board of Trustees.

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. 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, amounts recoverable from reinsurers under excess of loss agreements, and pharmaceutical rebates.

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 with original maturities less than ninety days are considered cash equivalents.

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. An allowance for doubtful accounts was not considered necessary by the Pool's management as of December 31, 2024 and 2023, respectively.

Investments

Investment securities are accounted for under the provisions of GASB 72 *Fair Value Measurement and Application*. Accordingly, 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. Certificates of deposit that are negotiable are also carried at fair market value. Nonparticipating certificates of deposits are stated at cost.

Dividend and interest income are recognized when earned. Investment expenses are netted against investment income.

The calculation of realized gains and losses is independent of the calculation of the net increase (decrease) in the fair value of investments. Realized gains and losses on investments that had been held for more than one year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

The Pool's Board of Directors has authorized investments in certificates of deposit, United States Treasury and government agency issues, mortgage-backed securities, corporate and municipal bonds and mutual funds, among other investments.

Member Contributions and Unearned Income

Members are billed monthly in advance for a deposit contribution. 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. Member contributions are reduced by reinsurance premiums ceded to the reinsurance companies.

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. Amounts recoverable from reinsurers that relate to paid claim losses and loss adjustment expenses are classified as assets, net of allowance for any estimated uncollectible amounts, and as a reduction to claims expenses incurred.

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.

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 no accrued within the financial statements.

Income Taxes

The Pool's management believes that its 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. 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 has not recognized a contribution deficiency as of December 31, 2024 and 2023.

Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses

The coverage offered by the Pool is on the occurrence basis which provides for payment of claims that occur during the period of coverage and which are submitted within 12 months of the date of occurrence. 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 (IBNR) with a 10% margin for adverse development. 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. Claims are reduced for subrogation when payment is received, as subrogation amounts are immaterial.

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.

Subsequent Events

The Pool has evaluated subsequent events through August 11, 2025, the date on which the financial statements were available to be issued.

Note 2 - Deposits and Investments**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Pool's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (i.e., broker-dealer) to a transaction, the Pool will not be able to recover the value of its investments that are in the possession of another party. The Pool's cash and cash equivalents are comprised of money market and checking accounts, the balances of which are periodically in excess of federally insured limits. The Pool had investments and certificates of deposits in the amount of \$5,303,282 and \$4,967,381 exposed to custodial credit risk as of December 31, 2024 and 2023, respectively.

The Pool 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, 2024, and December 31, 2023, the Pool had approximately \$3,460,936 and \$2,616,686, respectively, in excess of FDIC-insured limits.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Pool limits interest rate risk by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity. Investment maturities are staggered in such a manner that all investments will not come due at the same time. The cash and cash equivalents and investment portfolio will be managed with a portfolio effective duration of no longer than four years. The Pool's investment policy also requires that at least 10 percent of investable funds be held in a stable value investment to provide liquidity.

As of December 31, 2024, the Pool had the following fixed income securities and maturities:

December 31, 2024	Fair Value/ Carrying Value	Investment Maturity (In Years)			
		Less than 1	1 to 5	6 to 10	10+
Corporate bonds	\$ 133,099	\$ 49,777	\$ 83,322	\$ -	\$ -
Negotiable cert. of deposit	1,249,657	376,658	872,999	-	-
Fixed income mutual funds	3,525,521	3,525,521	-	-	-
Municipal bonds	280,045	-	188,519	91,526	-
U.S. government MBS	16,689	-	894	15,795	-
U.S. treasury notes & bonds	98,271	-	98,271	-	-
	<u>\$ 5,303,282</u>	<u>\$ 3,951,956</u>	<u>\$ 1,244,005</u>	<u>\$ 107,321</u>	<u>\$ -</u>

The Health Pool of South Dakota

Notes to Financial Statements

December 31, 2024 and 2023

As of December 31, 2023, the Pool had the following fixed income securities and maturities:

December 31, 2023	Fair Value/ Carrying Value	Investment Maturity (In Years)			
		Less than 1	1 to 5	6 to 10	10+
Corporate bonds	\$ 133,647	\$ -	\$ 133,647	\$ -	\$ -
CDs	888,781	295,100	593,681	-	-
Fixed income mutual funds	3,497,761	3,497,761	-	-	-
Municipal bonds	281,572	-	142,735	138,837	-
U.S. government MBS	22,502	-	2,516	19,986	-
U.S. treasury notes & bonds	143,119	-	143,119	-	-
	<u>\$ 4,967,382</u>	<u>\$ 3,792,861</u>	<u>\$ 1,015,698</u>	<u>\$ 158,823</u>	<u>\$ -</u>

The fair value of investments increased by \$110,804 and \$107,530 for the years ended December 31, 2024 and 2023, respectively. The amount takes into account all changes in fair value (included purchases and sales) that occurred during the year. Gross realized investment loss was \$115,065 and \$28,503 for the years ended December 31, 2024 and 2023, respectively.

Credit Risk

Suitable investments described in the Pool's investment policy include interest bearing checking accounts, savings accounts, United States Treasury bills, bonds and notes, United States Government Agencies, among other securities described in the Pool's investment policy. The Pool has no investment policy that would further limit its investment choices other than as described in its investment footnote disclosures. The Pool's investment policy states that corporate and municipal bonds rated A or better by Moody's Investment Service or an equivalent rating by another recognized service, and mutual and money market funds that invest in U.S. Treasury securities, are acceptable. The credit ratings for the Pool's investments specified in the policy as of December 31, 2024 and 2023 are as follows:

Investment Type	2024 Fair Value	2023 Fair Value	Rating
Corporate bonds	\$ 49,777	\$ 48,987	Aaa
Corporate bonds	83,322	84,660	A3
Fixed income mutual funds	3,525,521	3,497,761	NR
U.S. government MBS	16,689	22,502	NR
U.S. treasury notes & bonds	98,271	143,119	Aaa
Municipal bonds	144,581	142,735	Aaa
Municipal bonds	91,526	93,198	Aa2
Municipal bonds	43,938	45,639	A2

Concentration of Credit Risk

The Pool's investment policy provides that no more than 50 percent of the investable funds shall be placed in any one financial institution. Bond obligations of any one corporate or municipal issuer may not account for more than 5 percent of the portfolio market value at the time of purchase. The aggregate market value of all non-government-backed corporate and municipal bonds shall not exceed 50 percent of the portfolio market value at time of purchase.

Note 3 - Fair value of Financial Instruments

The fair value framework requires the categorization of assets and liabilities that are measured at fair value into one of three levels based on the assumptions (inputs) used in valuing the assets or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs are observable, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3 – Inputs are unobservable, reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The Health Pool of South Dakota

Notes to Financial Statements

December 31, 2024 and 2023

The Pool uses the best available information in measuring fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis as of December 31 are as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2024				
Fixed income mutual funds	\$ 3,525,521	\$ 3,525,521	\$ -	\$ -
Negotiable cert. of deposit	1,249,657	1,249,657	-	-
U.S. treasury notes & bonds	98,271	98,271	-	-
Municipal bonds	280,045	-	280,045	-
U.S. government MBS	16,689	-	16,689	-
Corporate bonds	133,099	-	133,099	-
Total assets	<u>\$ 5,303,282</u>	<u>\$ 4,873,449</u>	<u>\$ 429,833</u>	<u>\$ -</u>
December 31, 2023				
Fixed income mutual funds	\$ 3,497,761	\$ 3,497,761	\$ -	\$ -
Negotiable cert. of deposit	888,781	888,781	-	-
U.S. treasury notes & bonds	143,119	143,119	-	-
Municipal bonds	281,572	-	281,572	-
U.S. government MBS	22,502	-	22,502	-
Corporate bonds	133,647	-	133,647	-
Total assets	<u>\$ 4,967,382</u>	<u>\$ 4,529,661</u>	<u>\$ 437,721</u>	<u>\$ -</u>

Debt securities classified in Level 1 are valued using quoted market prices in an active market. Debt securities classified in Level 2 are valued based on observable market-based inputs for similar securities. There were no transfers between levels during the periods ended December 31, 2024 and 2023.

Note 4 - Liability for Losses and Loss Adjustment Expense Reserves

The Pool establishes liabilities for both reported and unreported covered events, which includes estimates of both future payments of claims and related claims adjustment expenses. The following is a summary of the changes in those aggregate liabilities for the years ended December 31, 2024 and 2023:

	2024	2023
Net unpaid losses and loss adjustment expense reserves, beginning of year	\$ 640,000	\$ 880,000
Net incurred losses and loss adjustment expenses		
Current year provision	7,654,687	7,208,449
Increase (decrease) in prior years' provisions	(351,172)	(184,037)
Net provision	7,303,515	7,024,412
Net losses and loss adjustment expense payments attributable to		
Current year	6,630,246	6,403,614
Prior years	573,269	860,798
Net payments	7,203,515	7,264,412
Unpaid losses and loss adjustment expense reserves, end of year	\$ 740,000	\$ 640,000

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expense reserves decreased \$351,172 and \$184,037 for the years ended December 31, 2024 and 2023. The change in incurred losses was primarily attributable to new information regarding claim development that became known during subsequent periods.

The liabilities for medical and prescription benefits were estimated based on the Development Method. The underlying principal of the Development Method is that the progression of claim payment follows runoff patterns that are assumed to remain stable over time. The liabilities include estimates of the costs to settle individual claims which have been reported of 3%, plus a provision for claims and costs incurred but not yet reported (IBNR) with a 10% margin for adverse development. There were no changes in methods, assumptions, or provisions during 2024 or 2023.

Note 5 - Reinsurance

The Pool and its members utilize reinsurance agreements to limit maximum loss and minimize exposures on larger risks. Under the reinsurance agreements in effect during the period ending December 31, 2024 and 2023, the Pool was reimbursed under an individual stop loss policy.

Under the stop loss policy, a covered member is subject to a \$100,000 deductible for the periods ended December 31, 2024 and 2023, respectively. In policy year 2023 the policy is a 72/12 arrangement which means the claims shall have incurred dates within the period or 60 months prior to the current year and paid dates within the period. In policy year 2024 the policy is a 84/12 arrangement which means the claims shall have incurred dates within the period or 72 months prior to the current year and paid dates within the period.

The Pool and its members would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. During the year ended December 31, 2024 and 2023, claims expenses incurred are net of \$2,277,979 and \$1,554,281 of recoveries from the reinsurance company under contract, respectively.

The Pool would be liable for any claims that occurred for which their reinsurance policies would not cover. Such obligation could arise from losses in periods in which Pool did not have reinsurance for the specified claim.

Note 6 - Pharmacy Rebates

The Pool receives pharmacy rebates on a quarterly basis. As of December 31, 2024 and 2023, a receivable is estimated based on historical receipts as well as benefit payments made throughout the 4th quarter. The estimates are adjusted based on actual collections through the date these financials statements are issued. The subsequent collections are considered a Type 1 subsequent event and are included in the recorded balance as of December 31, 2024 and 2023. Included in the recorded balance as of December 31, 2024 and 2023 are \$352,539 and \$276,991 of pharmacy rebates receivables, respectively. The Pool's administrator reconciles all pharmacy rebates for all clients annually and may pay additional rebates to the Pool. As these amounts are not readily estimated, they are recognized when received and are a part of the favorable or adverse development (along with other claim development) in Note 4. As of December 31, 2024 and 2023, \$0 and \$133,188 of pharmacy rebates receivables were greater than 90 days outstanding, respectively. There were no collection issues or bad debts noted as of December 31, 2024 and 2023. During the year ended December 31, 2024 and 2023, claims expenses incurred are net of \$1,609,384 and of \$900,914 of pharmacy rebates, respectively.

Note 7 - Service Agreements

The Pool has an agreement with Wellmark, Inc. to provide claims and program administration for the Pool. Fees incurred under the agreement for the years ended December 31, 2024 and 2023, were \$500,198 and \$414,728, respectively, of which \$433,337 and \$351,229 are reported in claims adjustment expense and \$66,861 and \$63,499 are reported in ancillary services expense during the years ended December 31, 2024 and 2023, respectively.

Wellmark, Inc. has contracted with various companies to provide ancillary services such as utilization review and access to preferred provider discounts. The Pool collects premiums from the respective members and pays for third party service fees (included in ancillary services expense in the accompanying statement of revenues and expenses).

Note 8 - Related Party Transactions

The South Dakota Municipal League (SDML) is the endorsing organization of the Pool and a related party. The Pool incurred sponsorship fees related to SDML of \$16,149 and \$15,619 for the years ended December 31, 2024 and 2023, respectively. The pool incurred service fees related to SDML of \$29,556 and \$28,584 for the years ended December 31, 2024 and 2023, respectively. No amounts were due to or from SDML as of December 31, 2024 and 2023.

Note 9 - Major Members

The Pool had two major members for the periods ending December 31, 2024 and 2023. A major member is one which provides 10 percent or more of an entity's revenue in any year. Net member contributions earned from each of the two the major members were approximately \$1,287,928.67 and \$1,187,049, respectively for the year ended December 31, 2024 and approximately \$1,004,514 and \$1,033,540 respectively for the year ended December 31, 2023. Amounts due from major members were \$0 and \$1,564 as of December 31, 2024 and 2023, respectively.

Note 10 - Contingencies

The Pool is a party to various legal actions and is subject to various claims arising in the ordinary course of business. Management believes that the disposition of these matters will not have a material adverse effect on the Pool's financial position or results of operations.



Required Supplementary Information
December 31, 2024

The Health Pool of South Dakota

The Health Pool of South Dakota
Schedule of Contribution and Claim Development Information (Unaudited)
For the Ten Years Ended December 31, 2024

	*2015	*2016	*2017	**2017	***2018	***2019	***2020	***2021	***2022	***2023	***2024
Net Earned Member Contributions and Investment Income											
Earned	\$ 3,302,403	\$ 3,239,530	\$ 4,196,554	\$ 2,481,934	\$ 5,820,036	\$ 6,315,620	\$ 6,915,713	\$ 8,116,772	\$ 8,874,882	\$ 8,915,565	\$ 10,235,238
Ceded	340,868	372,633	467,502	285,254	692,314	777,084	811,558	(1,078,872)	(1,105,757)	(1,204,975)	(1,545,778)
Net earned	2,961,535	2,866,897	3,729,052	2,196,680	5,127,722	5,538,536	6,104,155	9,195,644	9,980,639	10,120,540	11,781,016
Unallocated Expenses	143,371	143,481	135,299	67,058	189,158	178,148	180,332	199,603	203,374	186,513	211,249
Estimated Claims and Expenses, End of Policy Year											
Incurred	2,511,570	3,422,716	3,762,558	2,145,297	5,799,508	6,024,027	5,155,578	7,355,410	8,114,642	8,762,730	9,932,666
Ceded	76,567	357,394	664,986	3,318	260,160	699,712	351,910	669,135	1,457,259	1,554,281	2,277,979
Net incurred	2,435,003	3,065,322	3,097,572	2,141,979	5,539,348	5,324,315	4,803,668	6,686,275	6,657,383	7,208,449	7,654,687
Net Paid (Cumulative) as of:											
End of policy year	2,148,340	2,824,192	2,850,989	1,885,741	4,136,270	4,755,043	4,172,219	5,947,746	5,244,854	6,403,614	6,630,246
One year later	2,403,584	3,074,195	2,987,858	2,135,551	4,366,627	5,402,766	4,647,704	6,808,544	6,104,826	6,976,883	
Two years later	2,403,584	3,076,812	3,005,842	2,136,137	4,368,516	5,406,247	4,647,704	6,809,461	6,115,054		
Three years later	2,403,584	3,076,812	3,006,375	2,136,137	4,368,516	5,409,728	4,647,405	6,814,044			
Four years later	2,403,584	3,076,812	3,006,375	2,136,137	4,368,516	5,409,937	4,645,492				
Five years later	2,403,584	3,076,812	3,006,375	2,136,137	4,368,516	5,414,292					
Six years later	2,403,584	3,076,812	3,006,375	2,136,137	4,368,516						
Seven years later	2,403,584	3,076,812	3,006,375	2,136,137							
Eight years later	2,403,584	3,076,812									
Nine years later	2,403,584										
Estimated Ceded Claims and Expenses	76,567	357,394	664,986	3,318	260,160	699,712	351,910	669,135	1,457,259	1,554,281	2,277,979
Estimated Net Incurred Claims and Expenses											
End of policy year	2,435,003	3,065,322	3,097,572	2,141,979	4,312,444	5,137,267	4,803,668	6,686,275	6,657,383	7,208,449	7,654,687
One year later	2,403,584	3,074,195	2,987,858	2,135,551	4,366,627	5,402,766	4,647,704	6,808,544	6,473,346	6,857,277	
Two years later	2,403,584	3,076,812	3,005,842	2,136,137	4,368,516	5,406,247	4,647,704	6,809,461	6,115,054		
Three years later	2,403,584	3,076,812	3,006,375	2,136,137	4,368,516	5,409,728	4,647,704	6,814,044			
Four years later	2,403,584	3,076,812	3,006,375	2,136,137	4,368,516	5,409,937	4,645,492				
Five years later	2,403,584	3,076,812	3,006,375	2,136,137	4,368,516	5,409,937					
Six years later	2,403,584	3,076,812	3,006,375	2,136,137	4,368,516						
Seven years later	2,403,584	3,076,812	3,006,375	2,136,137							
Eight years later	2,403,584	3,076,812									
Nine years later	2,403,584										
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year	\$ (31,419)	\$ 11,490	\$ (91,197)	\$ (5,842)	\$ 56,072	\$ 272,670	\$ (158,176)	\$ 127,769	\$ (542,329)	\$ (351,172)	\$ -

*Fiscal years ended June 30

**Six month period ended December 31, 2017

*** Year ended December 31



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 Trustees
The Health Pool of South Dakota
Fort Pierre, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of The Health Pool of South Dakota (the Pool), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise The Health Pool of South Dakota's basic financial statements and have issued our report thereon dated August 11, 2025.

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 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 identified a certain deficiency in internal control, 2024-01 in the accompanying schedule of findings and responses, which we consider to be significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pool's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 finding identified in our audit and described in the accompanying schedule of findings and response. 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 Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Fargo, North Dakota
August 11, 2025

2024-01

Preparation of Financial Statements and Audit Entries
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 identified and proposed adjustments and were requested to draft the financial statements and accompanying notes to the financial statements.

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

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

Recommendation – 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 Health Pool of South Dakota 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. Management notes that this practice is not unusual for organizations of our size. Our accounting services provider performs 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. Management has concluded that it does not believe the costs of employing staff to stay current with accounting standards that affect the annual financial statement reporting are outweighed by the Members’ benefit of using those resources elsewhere in the organization.