Financial Statements
December 31, 2025 and 2024

South Dakota Municipal League (SDML) Workers' Compensation Fund

Independent Auditor's Report

To the Board of Trustees
SDML Workers' Compensation Fund
Fort Pierre, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of South Dakota Municipal League (SDML) Workers' Compensation Fund (the Fund), as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Fund'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 business-type activities of the Fund as of December 31, 2025 and 2024, 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 Fund 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 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.

eidebailly.com
4310 17th Ave. S. • P.O. Box 2545 • Fargo, ND 58108-2545 • T 701.239.8500 • F 701.239.8600 • EOE

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 Fund'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 Fund'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 Fund'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 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 accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2026 on our consideration of the Fund'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 Fund'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 Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Fargo, North Dakota
July 7, 2026

	2025	2024
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 9,048,023	$ 5,863,835
Investments (Notes 2 and 3)		
Certificates of deposit	7,427,480	5,209,823
Receivables		
Reinsurance recoverables on paid losses (Notes 5 and 7)	462,894	582,828
Member contributions	236,167	268,481
Investment income	142,237	127,131
Reinsurance refund	64,871	40,457
Prepaid expenses	1,000	1,000
Total current assets	17,382,672	12,093,555
Noncurrent Assets		
Long-Term Investments (Notes 2 and 3)		
Certificates of deposit	21,873,779	24,106,942
Debt securities	2,881,963	2,823,078
Total long-term investments	24,755,742	26,930,020
Other Assets		
Contributed surplus and member equity in NLC Mutual Insurance Company (Note 6)	2,668,948	2,562,354
Total noncurrent assets	27,424,690	29,492,374
Total Assets	$ 44,807,362	$ 41,585,929
Liabilities and Net Position		
Current Liabilities		
Current portion of estimated liability for reported and unreported claims and claim adjustments expenses (Notes 5 and 7)	$ 4,260,665	$ 3,668,153
Advance member contributions	4,270,594	3,536,808
Member contributions refundable	1,109,326	843,288
Accounts payable and accrued expenses	24,578	40,328
Total current liabilities	9,665,163	8,088,577
Estimated Liability for Reported and Unreported Claims and Claims adjustment expenses, less current portion (Notes 5 and 7)	7,051,586	5,483,782
Total liabilities	16,716,749	13,572,359
Net Position (Note 9)		
Unrestricted	28,090,613	28,013,570
	$ 44,807,362	$ 41,585,929

	2025	2024
Operating Revenues		
Member contributions earned,		
net of renewal and loss control credits (Note 9)	$ 10,548,632	$ 9,568,004
Less reinsurance premiums (Note 5)	(966,754)	(871,814)
Net operating revenues	9,581,878	8,696,190
Operating Expenses		
Claims and claims adjustment expenses incurred, net		
(Notes 4, 5 and 7)	8,645,575	6,364,464
General and Administrative Expenses		
Administrative and service fees (Notes 4 and 8)	1,491,813	1,285,884
Payroll audit fees	54,750	52,905
Professional fees	58,665	57,118
Board of Trustee fees and expenses	39,990	41,729
Actuarial fees	35,100	34,500
Office expense and other	13,371	16,645
Insurance expenses	1,415	1,547
Total general and administrative expenses	1,695,104	1,490,328
Return on Equity Credits (Note 9)	921,340	873,675
Total operating expenses	11,262,019	8,728,467
Operating loss	(1,680,141)	(32,277)
Nonoperating Revenues		
Net investment income (Notes 2 and 3)	1,650,590	1,300,790
Earned member equity, NLC Mutual Insurance Company (Note 6)	106,594	99,736
Total nonoperating revenues	1,757,184	1,400,526
Change in net position	77,043	1,368,249
Net Position		
Beginning	28,013,570	26,645,321
Ending	$ 28,090,613	$ 28,013,570

	2025	2024
Cash Flows From Operating Activities		
Contributions received	$ 11,580,770	$ 9,703,677
Reinsurance premiums paid	(991,168)	(890,775)
Underwriting and expenses of operations paid	(1,710,854)	(1,290,284)
Claims and claims adjustment expenses paid	(6,365,325)	(6,568,669)
Return on equity credits	(921,340)	(873,675)
Net cash provided by operating activities	1,592,083	80,274
Cash Flows From Investing Activities		
Certificates of deposit		
Purchases	(5,514,000)	(5,223,000)
Sales and maturities	5,876,000	7,068,000
Debt securities		
Purchases	-	(2,356,147)
Investment income received, net of investment expenses	1,230,105	1,067,148
Net cash provided by investing activities	1,592,105	556,001
Net increase in cash and cash equivalents	3,184,188	636,275
Cash and Cash Equivalents		
Beginning	5,863,835	5,227,560
Ending	$ 9,048,023	$ 5,863,835
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating loss	$ (1,680,141)	$ (32,277)
(Increase) decrease in assets		
Reinsurance recoverable on paid losses	119,934	(297,608)
Member contributions receivables	32,314	(36,612)
Other receivables	(24,414)	(18,961)
Prepaid expenses	-	16,861
Increase (decrease) in liabilities		
Estimated liability for reported and unreported claims and claims adjustment expenses	2,160,316	(204,205)
Advance member contributions	733,786	469,893
Member contributions refundable	266,038	147,796
Accounts payable and accrued expenses	(15,750)	35,387
Net cash provided by operating activities	$ 1,592,083	$ 80,274
Supplemental schedule of noncash investing and financing activities:		
Net increase in the fair value of investments	$ 405,377	$ 216,931

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity

South Dakota Municipal League (SDML) Workers' Compensation Fund (the Fund) was formed in 1986 to provide workers' compensation coverage for member organizations belonging to SDML and the South Dakota Association of County Commissioners (SDACC). There were 525 and 519 members of the Fund in 2025 and 2024, respectively, all of which are primarily cities, counties, townships and special districts of the state of South Dakota. The objective of the Fund is to formulate, develop and administer, on behalf of member organizations, a program of workers' compensation coverage; to obtain lower costs for that coverage; and to develop a comprehensive loss control program. The Fund is supervised by a nine-member Board of Trustees.

The Fund operates as a single proprietary fund, more specifically as an enterprise fund. The Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Fund's principal ongoing operations. Nonoperating revenues and expenses result primarily from investment activities.

The Fund is exposed to various risks of loss related to torts and errors and omissions. SDML has purchased commercial insurance to mitigate these risks.

Members agree to continue membership in the Fund for one year and may withdraw from the Fund for any year thereafter upon giving 60 days written notice to the Fund manager. Withdrawal cannot take place prior to the end of the policy year. Any member whose membership has been terminated by the Fund will only retain an interest to any accrued or current excess contributions as determined by the Board of Trustees.

A summary of the Fund's significant accounting policies are as follows:

Basis of Presentation

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Fund prepares its financial statements primarily following the guidance of Governmental Accounting Standards Board (GASB).

Adoption of New Standards

As of December 31, 2025, the Fund adopted GASB Statement No. 102, *Certain Risk Disclosures*, which requires management to evaluate whether there are risks related to a government's vulnerabilities due to certain concentrations or constraints that require disclosure. There was no impact on the Fund's financial statements as a result of the implementation of this standard.

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 investment valuation.

Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Fund includes as cash equivalents all cash accounts, money market mutual funds, certificates of deposit and debt securities that have an original maturity of three months or less from the date of acquisition that are not subject to any withdrawal restrictions or penalties.

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 Fund evaluates the collectability of such receivables monthly based on third-party payers’ financial condition and credit history, and other current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Investments

The Fund reports investments (other than nonnegotiable certificates of deposit) at fair value in the statements of net position with changes in the fair value of investments reported as investment income. Fair value is the price that would be received to sell the investment in an orderly transaction between market participants at the measurement date. Fair value of actively traded securities is determined by the reported market value of securities trading on national exchanges. Values of securities not actively traded are based on observable inputs of similar financial instruments.

Nonnegotiable certificates of deposit are stated at cost.

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

The calculation of realized gains and losses is independent of the calculation of the change 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.

Member Equity in NLC Mutual Insurance Company (NLC Mutual)

The Fund records its share of net increases (decreases) in certain net assets of NLC Mutual as income (loss) in the Fund's statements of revenues, expenses and changes in net position and adds (deducts) such amounts to (from) the member equity account included in other assets on the statements of net position.

Reinsurance

In the normal course of business, the Fund 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 reported and unreported claims and claims adjustment expenses. Amounts recoverable from reinsurers that relate to paid claim losses and loss adjustment expenses are classified as assets, net of an allowance for any estimated uncollectible amounts, and as a reduction to claims expenses incurred. Estimated amounts recoverable from reinsurers that relate to unpaid claim losses and loss adjustment expenses are recorded as a reduction of insurance liabilities and claims expenses incurred. Reinsurance premiums paid and reinsurance recoveries on claims are netted against related earned member contributions and claims and claims adjustment expenses incurred, respectively.

Income Taxes

The Fund'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 Fund's tax-exempt status has not been requested.

Member Contributions and Unearned Income

Members are billed annually in advance for a deposit contribution. After the end of the policy year, members are billed for (refunded) any additional (excess) contributions as a result of payroll audits. 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 the reinsurance company. Member contributions are recorded net of renewal and loss control credits (see Note 9).

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 premiums. The Fund anticipates investment income in determining if a contribution deficiency exists. At December 31, 2025 and 2024, the Fund determined no contribution deficiency existed.

Estimated Liability for Reported and Unreported Claims and Claims Adjustment Expenses

The coverage offered by the Fund is on an occurrence basis, which provides for payment of claims that occur during the period of coverage regardless of when the claim is reported. The estimated liability for reported and unreported claims and claims adjustment expenses is based upon data developed by the Fund's administrator and is discounted at a rate of 3.25% and 2.90% as of December 31, 2025 and 2024, respectively, which had the effect of reducing this liability by approximately $1,349,000 and $984,000 as of December 31, 2025 and 2024, respectively. Industry experience and statistics were used to develop the estimated liability. The claims history of the Fund was also considered. The liability includes estimates of the costs to settle individual claims that 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 claim 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 Fund 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 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 at December 31, 2025 and 2024.

Note 2 - Deposits and Investments

The Fund's deposits as of December 31, 2025 and 2024, consist of cash, money market funds and certificates of deposit with book balances totaling $38,349,282 and $35,180,600, respectively.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. The Fund's deposit policy limits maturities of certificates of deposit to no greater than five years. In addition, the investment policy allows the Fund to be invested in certificates of deposit of banks or savings and loan associations organized under the laws of the United States of America and any state thereof that are insured by the Federal Deposit Insurance Corporation or any similar organization. The Fund's investment policy also states that no certificate of deposit may be for a face amount greater than $250,000. As of December 31, 2025 and 2024, deposits of $0 were exposed to custodial credit risk, as they were uninsured, and the collateral was held by the pledging bank not in the Fund's name.

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 Fund will not be able to recover the value of its investments that are in the possession of another party. The Fund does not have a policy regarding exposure to custodial credit risk. At December 31, 2025 and 2024, no investments were exposed to custodial credit risk.

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 Fund limits investments in United States government-backed mortgage pools to an average life no greater than 12 years as a means of managing exposure to fair value losses arising from increasing interest rates.

As of December 31, 2025, the Fund had the following fixed-income securities and maturities:

	Fair Value/	Investment Maturity (In Years)			
	Carrying Value	Less than 1	1 to 5	6 to 10	10+
U.S. Treasury Issues	$ 2,881,963	$ -	$ 560,085	$ 1,539,201	$ 782,677
Negotiable Certificates of Deposit	12,880,259	6,191,480	6,688,779	-	-
Nonnegotiable Certificates of Deposit	16,421,000	1,236,000	15,185,000	-	-
	$ 32,183,222	$ 7,427,480	$ 22,433,864	$ 1,539,201	$ 782,677

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

	Fair Value/	Investment Maturity (In Years)			
	Carrying Value	Less than 1	1 to 5	6 to 10	10+
U.S. Treasury Issues	$ 2,823,078	$ -	$ 549,409	$ 1,483,903	$ 789,766
Negotiable Certificates of Deposit	12,050,765	1,475,823	10,574,942	-	-
Nonnegotiable Certificates of Deposit	17,266,000	3,734,000	12,686,000	846,000	-
	$ 32,139,843	$ 5,209,823	$ 23,810,351	$ 2,329,903	$ 789,766

The net increase in the fair value of investments during 2025 and 2024, was $405,377 and $216,931 respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year. Gross realized investment gains were $0 and $0 for the years ended December 31, 2025 and 2024, respectively. Gross realized investment losses were $0 and $991 for the years ended December 31, 2025 and 2024, respectively.

Credit Risk

The Fund’s approved investment policy and South Dakota Codified Law (SDCL) 4-5-6 authorize the Fund to be invested only in: (a) securities of the United States and securities guaranteed by the United States government, either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. The Fund has no investment policy that would further limit its investment choices other than as described in these statutory and footnote disclosures. The credit rating for U.S. Treasury issues was AA+ at December 31, 2025. The certificates of deposit are not rated.

Concentration of credit risk

The Fund's investment policy states that no individual security may have a fair value or face amount greater than 10% of the account's total market value at the time of purchase, with the exception of securities of the United States government and securities guaranteed by the United States government either directly or indirectly. At December 31, 2025 and 2024, no investments were exposed to concentration of credit risk.

Net investment income consists of the following for the years ended December 31, 2025 and 2024:

	2025	2024
Interest income	$ 1,323,383	$ 1,150,830
Unrealized gains	405,377	216,931
Realized gains	-	7,893
Other income	900	-
Investment fees	(79,070)	(74,864)
	$ 1,650,590	$ 1,300,790

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 liabilities. 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 Fund 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, 2025				
U.S. Treasury Issues	$ 2,881,962	$ 2,881,962	$ -	$ -
Negotiable Certificates of Deposit	12,880,260	12,880,260	-	-
Total assets	$ 15,762,222	$ 15,762,222	$ -	$ -

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2024				
U.S. Treasury Issues	$ 2,823,078	$ 2,823,078	$ -	$ -
Negotiable Certificates of Deposit	12,050,765	12,050,765	-	-
Total assets	$ 14,873,843	$ 14,873,843	$ -	$ -

The fair value of U.S. Treasury issues and negotiable certificates of deposit is determined by reference to quoted market prices in an active market (Level 1). There were no transfers between levels in the years ended December 31, 2025 and 2024.

Note 4 - Service Agreements

The Fund has an agreement with Insurance Benefits, Inc. (IBI) to provide program administration for the Fund. The agreement expires on December 31, 2029. The base fee is adjusted on an annual basis by the greater of 5% of an estimated modified contribution or 3.50% or the annual change in the Consumer Price Index. The base fee was adjusted by 5% for the year ended December 31, 2025. Fees incurred under the agreement in 2025 and 2024 were $762,178 and $636,282, respectively.

The Fund has an agreement with Claims Associates, Inc. (CAI) to provide administrative, investigative and adjustment services for claims incurred. The agreement expires December 31, 2029. The base fee is adjusted on an annual basis by the greater of 3.50% or the annual change in the Consumer Price Index. The base fee was adjusted by 3.50% for the year ended December 31, 2025. The Fund has a deposit of $400,000 with CAI that will be applied toward future claims payments and is recorded against the estimated liability for reported and unreported claims and claims adjustment expenses. The Fund also has other agreements with CAI or its affiliates for rehabilitation services and network utilization savings. Fees incurred under these agreements in 2025 and 2024 were $1,027,772 and $1,062,874, respectively.

Combined fees incurred to IBI and CAI under these agreements totaled $1,789,950 and $1,699,156 in 2025 and 2024, respectively, of which $1,103,990 and $1,126,502, respectively, is included in claims and claims adjustment expenses incurred, and the remainder is included in administrative and service fees.

The Fund has an agreement with Safety Benefits, Inc. to provide a loss control program for members. The agreement states that Safety Benefits, Inc. be compensated based on a fixed fee. The agreement expires December 31, 2029. The base fee is adjusted on an annual basis by the greater of 3.50% or the annual change in the Consumer Price Index. The base fee was adjusted by 3.50% for the year ended December 31, 2025. Fees incurred in 2025 and 2024 were $524,238 and $456,953, respectively, and are included in general and administrative expenses.

The Fund maintains accounts with BankWest under a custodial agreement. Fees incurred to BankWest during 2025 and 2024 were $79,070 and $74,864, respectively, which were included in net investment income.

Note 5 - Reinsurance

The Fund utilizes reinsurance agreements to limit maximum loss and minimize exposures on larger risks. During both 2025 and 2024, individual claims are indemnified for amounts in excess of $900,000, with a statutory limit per occurrence, except with respect to employers' liability, in which a sublimit of $2,000,000 applies.

The Fund is liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. At December 31, 2025 and 2024, the Fund determined that it had no significant credit risk with respect to its reinsurers, and no allowances were necessary for amounts recoverable from reinsurers. Reinsurance recoverables under reinsurance agreements on paid losses as of December 31, 2025 and 2024, were $462,894 and $582,828, respectively. Reinsurance recoverable amounts related to unpaid claims of $6,544,282 and $7,493,352 were deducted from the estimated liability for reported and unreported claims and claims adjustment expenses as of December 31, 2025 and 2024, respectively. During 2025 and 2024, claims expenses were reduced by $693,638 and $848,120, respectively, related to recoveries from reinsurance companies under contract.

The Fund has several structured settlements and annuities in claimants' names to fund future payments to those claimants. The Fund believes there is no material contingent liability related to these instruments. Accordingly, $2,373,781 and $2,555,234 are not reported as an asset or as a liability in the statements of net position as of December 31, 2025 and 2024, respectively.

Note 6 - NLC Mutual Insurance Company

In prior years, the Fund had reinsurance coverage with NLC Mutual, and has since placed this coverage with other companies. Under the workers' compensation line of business of NLC Mutual, each member pool has a separate equity account (Capital). Contributed surplus requirements are determined as specified in NLC Mutual's bylaws.

Each NLC Mutual member's Capital account may be credited each year with the member's proportionate share of realized investment income earned by NLC Mutual during the prior fiscal year based on the total of all members' Capital accounts at NLC Mutual's discretion. Further, each member's Capital account may also be credited (or debited) from time to time based on NLC Mutual's financial condition, underwriting results, reserve adjustments and such other factors as NLC Mutual may reasonably consider in order to achieve fair and equitable results for NLC Mutual.

At the sole discretion of each NLC Mutual pool member, an election may be made to withdraw its Capital from any line of business reinsured by giving written notice to NLC Mutual. The effective date upon which such Capital may be withdrawn shall be determined by the withdrawing member based on a distribution election of no sooner than two years at 20% of Capital and no longer than 10 years at 100% of Capital. This distribution of Capital also requires the approval of NLC Mutual's Board of Directors and the State of Vermont Department of Financial Regulation.

The Fund made no capital contributions to NLC Mutual in 2025 and 2024. As of December 31, 2025 and 2024, the Fund's Capital account balance was $2,668,948 and $2,562,354, respectively.

Note 7 - Liability for Reported and Unreported Claims and Claims Adjustment Expenses

The Fund 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, 2025, and 2024 (amounts in thousands):

	2025	2024
Reported and Unreported Claims and Claims adjustment expense liabilities at beginning of year	$ 9,152	$ 9,356
Incurred Claims and Claims Adjustment Expenses		
Provision for insured events of the current year	8,411	7,617
Provision for insured events of prior years	235	(1,253)
Total incurred claims and claims adjustment expenses	8,646	6,364
Payments		
Claims and claims adjustment expenses attributable to insured events of the current year	2,594	3,006
Claims and claims adjustment expenses attributable to insured events of prior year	3,772	3,860
Total payments	6,366	6,866
Less Reinsurance Recoverables at Beginning of Year	(583)	(285)
Plus reinsurance recoverables at end of year	463	583
Reported and unreported claims and claims adjustment expense liabilities at end of year	$ 11,312	$ 9,152
Current liability for reported and unreported claims and claims adjustment expenses	$ 4,261	$ 3,668
Noncurrent liability for reported and unreported claims and claims adjustment expenses	7,051	5,484
Total liability for unpaid claims	$ 11,312	$ 9,152

The 2025 increase and 2024 decrease in prior years' provisions of incurred claims and claims adjustment expenses resulted from negative and positive loss development experience, respectively, as more information became known and payments made, offset by accretion of discount on claims liabilities.

Note 8 - Related-Party Transactions

SDML and the SDACC are the sponsoring organizations of the Fund. SDML performs management services for the Fund. Expenses incurred to SDML in 2025 and 2024 were $72,540 and $70,428, respectively, and were recognized in administrative and service fees. During 2025 and 2024, $102,578 and $89,560, respectively, of endorsement fees incurred to SDML were recognized in administrative and service fees. A member of the Fund's Board of Trustees is also the executive director of SDML.

During 2025 and 2024, $68,386 and $59,707, respectively, of endorsement fees incurred to the SDACC were recognized in administrative and service fees. A member of the Fund's Board of Trustees is also the executive director of the SDACC.

Note 9 - Net Position

Any surplus monies for a fiscal year in excess of the amount necessary to fulfill all obligations of the Fund for that year may be refunded to the members at the discretion of the Board of Trustees. Return on equity credits were $921,340 and $873,675 during the years ended December 31, 2025 and 2024, respectively. Renewal and loss control credits were $3,522,570 and $3,688,377 during the years ended December 31, 2025 and 2024, respectively. Return on equity credits are reported as an expense of the Fund, and the renewal and loss control credits are reported as a reduction of member contributions earned in the year in which the member renews. Discretionary dividends are reported as an expense of the Fund in the year declared.

The Fund's Board of Trustees has designated net position for a deep reserve, which is not available for dividends to members. At December 31, 2025 and 2024, this amount was approximately $11,177,000 and $10,727,000, respectively.

Note 10 - Contingencies

The Fund is a party to certain claims and legal actions arising during the ordinary course of business. It is management's opinion that these matters will not have a material adverse effect on the financial position or results of operations of the Fund.

Note 11 - Subsequent Events

The Fund has evaluated subsequent events through July 7, 2026, the date the financial statements were available to be issued.

Required Supplementary Information
December 31, 2025

South Dakota Municipal League (SDML) Workers' Compensation Fund

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net earned member contributions and investment income										
Earned	$ 7,394	$ 7,748	$ 8,260	$ 8,787	$ 8,659	$ 8,072	$ 7,308	$ 9,855	$ 10,869	$ 12,199
Ceded	607	629	653	667	638	658	731	820	872	967
Net earned	6,787	7,119	7,607	8,120	8,021	7,414	6,577	9,035	9,997	11,232
Unallocated expenses	1,034	1,027	1,063	1,089	1,123	1,137	1,166	1,281	1,441	1,695
Estimated claims and expenses, end of policy year										
Incurred	6,237	6,013	7,534	5,872	6,108	6,453	7,906	7,806	8,465	9,105
Ceded	514	526	620	539	735	1,014	1,028	528	848	694
Net incurred	5,723	5,487	6,914	5,333	5,373	5,439	6,878	7,278	7,617	8,411
Net paid (cumulative) as of										
End of policy year	2,560	2,459	2,552	2,394	2,433	2,488	2,905	3,155	3,006	2,594
One year later	3,605	3,358	4,181	4,038	3,865	3,788	4,669	5,448	5,444	-
Two years later	4,285	3,873	4,487	4,933	4,689	4,198	5,771	6,106	-	-
Three years later	4,444	4,446	4,713	5,173	4,774	4,270	5,855	-	-	-
Four years later	4,979	4,471	4,841	5,562	4,798	4,415	-	-	-	-
Five years later	4,988	4,645	4,917	5,642	4,832	-	-	-	-	-
Six years later	4,914	4,653	5,086	5,651	-	-	-	-	-	-
Seven years later	4,916	4,655	5,128	-	-	-	-	-	-	-
Eight years later	4,924	4,655	-	-	-	-	-	-	-	-
Nine years later	4,961	-	-	-	-	-	-	-	-	-
Reestimated net incurred claims and expenses										
End of policy year	5,723	5,487	6,914	5,333	5,373	5,439	6,878	7,278	7,617	8,411
One year later	5,516	4,960	6,263	5,847	5,630	5,083	6,456	6,769	7,665	-
Two years later	5,408	4,970	5,681	6,074	5,135	4,681	6,650	6,838	-	-
Three years later	5,322	4,804	5,655	6,058	5,003	4,581	6,797	-	-	-
Four years later	5,162	4,635	5,680	6,132	5,032	4,723	-	-	-	-
Five years later	5,112	4,737	5,874	5,937	4,985	-	-	-	-	-
Six years later	4,959	4,728	5,790	6,062	-	-	-	-	-	-
Seven years later	4,951	4,665	5,785	-	-	-	-	-	-	-
Eight years later	4,988	4,660	-	-	-	-	-	-	-	-
Nine years later	4,998	-	-	-	-	-	-	-	-	-
Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(725)	(827)	(1,129)	729	(388)	(716)	(81)	(440)	48	-

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
SDML Workers' Compensation Fund
Fort Pierre, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities of South Dakota Municipal League (SDML) Workers' Compensation Fund (the Fund), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated July 7, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund'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.

eidebailly.com
4310 17th Ave. S. • P.O. Box 2545 • Fargo, ND 58108-2545 • T 701.239.8500 • F 701.239.8600 • EOE

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, 2025-01 in the accompanying schedule of findings and responses, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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*.

The Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Fund's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Fund'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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Fargo, North Dakota
July 7, 2026

2025-01 **Segregation of Duties**
Significant Deficiency

Criteria or specific requirement – A system of internal controls requires a proper segregation of duties.

Condition – Several individuals have access to initiate automated clearing house (ACH) transactions and also have the ability to record transactions in the general ledger. The general ledger system utilized by the Fund is also unable to appropriately segregate duties, resulting in individuals with general ledger access having the ability to record journal entries across all transaction cycles with limited oversight of these activities.

Cause – Due to the small number of individuals involved in the accounting process, a lack of segregation of duties exists.

Effect – A lack of segregation of duties could result in errors or irregularities occurring and not being detected on a timely basis.

Recommendation – We recommend that the Fund perform an assessment of internal controls and either determine methods in which conflicting duties can be appropriately segregated or implement an appropriate review and approval process over significant transactions, including ACH transactions.

View of Responsible Officials and Management's Planned Corrective Action – Management continues to review duties assigned to accounting personnel and evaluate its general ledger software to determine if any changes will allow for proper segregation of duties. With the small staff available, it is difficult to allow for proper segregation of all duties, but management will also consider additional review and approval processes to help mitigate the risk.