

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC

AUDIT REPORT

For the Year Ended December 31, 2023



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

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
OFFICIALS
December 31, 2023

Board of Managers:

Board President, Michael Headley
Vice President, Chas Olson
Treasurer, Terry Miller
Secretary, Donald Templeton
Member, Darin Seeley

Manager South Dakota Captive Insurance Companies:

Megan Mercer

Director, Executive Management Finance Office:

Rachel Williams

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

RUSSELL A. OLSON
AUDITOR GENERAL

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Kristi Noem
Governor of South Dakota

and

Board of Managers
South Dakota Authority Captive Insurance Company, LLC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the South Dakota Authority Captive Insurance Company, a component unit of the State of South Dakota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the South Dakota Authority Captive Insurance Company's basic financial statements, and have issued our report thereon dated June 5, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Authority Captive Insurance Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of this Report

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



Russell A. Olson, Auditor General
Pierre, South Dakota

June 5, 2024



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RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Kristi Noem
Governor of South Dakota

and

Board of Managers
South Dakota Authority Captive Insurance Company, LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the South Dakota Authority Captive Insurance Company, a component unit of the State of South Dakota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the South Dakota Authority Captive Insurance Company's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Authority Captive Insurance Company as of December 31, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 South Dakota Authority Captive Insurance Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 South Dakota Authority Captive Insurance Company'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 opinions. 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 South Dakota Authority Captive Insurance Company'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 South Dakota Authority Captive Insurance Company'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 management's discussion and analysis on page 6 and the Ten-Year Claims Development Information on page 19 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2024 on our consideration of the South Dakota Authority Captive Insurance Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 South Dakota Authority Captive Insurance Company'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 South Dakota Authority Captive Insurance Company's internal control over financial reporting and compliance.



Russell A. Olson, Auditor General
Pierre, South Dakota

June 5, 2024

**SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
MANAGEMENT’S DISCUSSION AND ANALYSIS**

This section of the South Dakota Authority Captive Insurance Company, LLC (Captive) financial report presents a narrative overview and analysis of the financial activities of the Captive for the fiscal year ended December 31, 2023. This analysis should be read in conjunction with the Independent Auditor’s Report, financial statements, and notes to the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Captive’s basic financial statements. The Captive’s basic financial statements include: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. The report also contains Required Supplementary Information in addition to the basic financial statements.

The Statement of Net Position presents information on the Captive’s assets and liabilities with the difference being reported as net position. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Captive’s net position changed during the year. The Statement of Cash Flows provides information about the Captive’s cash receipts and payments during the year. The Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

Net Position

	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>% Change</u>
Assets:				
Cash and Cash Equivalents	\$ 6,070,767	\$ 5,666,084	\$ 404,683	7.1%
Interest & Dividends Receivable	38,225	14,497	23,728	163.7%
Total Assets	<u>6,108,992</u>	<u>5,680,581</u>	<u>428,411</u>	<u>7.5%</u>
Liabilities:				
Accounts Payable	16,763	17,686	(923)	-5.2%
Reserve for Claims and Claim Adjustment Expense	192,677	190,186	2,491	1.3%
Noncurrent Reserve for Claims and Claim Adj. Exp.	501,203	515,849	(14,646)	-2.8%
Total Liabilities	<u>710,643</u>	<u>723,721</u>	<u>(13,078)</u>	<u>-1.8%</u>
Net Position:				
Unrestricted	5,398,349	4,956,860	441,489	8.9%
Total Net Position	<u>\$ 5,398,349</u>	<u>\$ 4,956,860</u>	<u>\$ 441,489</u>	<u>8.9%</u>

**SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Total assets of the Captive increased 7.5%. Cash and Cash equivalents increased due to an increase in insurance premiums and interest proration. There were also fewer expenses in 2023, mainly claims expense, causing a larger cash balance. Interest and dividends receivable increased 163.7% because the return on investments was higher than the return in 2022.

Total liabilities of the Captive decreased 1.8%. Most of the decrease is in the actuarial estimated reserve for claims and claims adjustment expense account. This is because of favorable loss development due to prior years claims settlement.

Changes in Net Position

	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>% Change</u>
Revenues:				
Net Earned Premiums	\$ 280,107	\$ 176,527	\$ 103,580	58.7%
Interest Income	209,017	(41,844)	250,861	599.5%
Total Revenues	<u>489,124</u>	<u>134,683</u>	<u>354,441</u>	<u>263.2%</u>
Expenses:				
Claims and Claim Adjustment Expense	(12,155)	139,412	(151,567)	-108.7%
Management Fees	25,173	21,496	3,677	17.1%
Actuarial Fees	12,800	12,800	-	0.0%
Legal Fees	6,397	5,792	605	10.4%
Audit Fees	8,541	6,525	2,016	30.9%
Supervision Fee	6,000	6,000	-	0.0%
Investment Expense	879	989	(110)	-11.1%
Total Expenses	<u>47,635</u>	<u>193,014</u>	<u>(145,379)</u>	<u>-75.3%</u>
Change in Net Position	<u>\$ 441,489</u>	<u>\$ (58,331)</u>	<u>\$ 499,820</u>	<u>-856.9%</u>

Total revenues increased 263.2%. Net premiums increased because gross premiums increased more than reinsurance premiums increased. Interest income is higher due to an increase in estimated interest rate and a higher cash balance.

Total expenses decreased 75.3%. The largest decrease was claims and claims adjustment expense due to actuarial recommendation based on favorable loss development. Management Fees increased 17.1%. Much of the increase is due to additional work performed on negotiating insurance policies.

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
STATEMENT OF NET POSITION
December 31, 2023

Assets	
Current Assets	
Cash and Cash Equivalents	\$ 6,070,767
Interest & Dividends Receivable	38,225
Total Assets	<u>\$ 6,108,992</u>
 Liabilities	
Current Liabilities	
Accounts Payable	\$ 16,763
Reserve for Claims and Claim Adjustment Expense	192,677
Total Current Liabilities	<u>209,440</u>
 Noncurrent Liabilities	
Reserve for Claims and Claim Adjustment Expense	501,203
Total Noncurrent Liabilities	<u>501,203</u>
Total Liabilities	<u>710,643</u>
 Net Position	
Unrestricted	<u>5,398,349</u>
Total Net Position	<u>5,398,349</u>
 Total Liabilities and Net Position	 <u>\$ 6,108,992</u>

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

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2023

Operating Revenue	
Gross Earned Premiums	\$ 583,169
Reinsurance Premiums Ceded	(303,062)
Net Earned Premiums	<u>280,107</u>
Operating Expense	
Claims and Claim Adjustment Expense (See Note 2)	(12,155)
Management Fees	25,173
Actuarial Fees	12,800
Legal Fees	6,397
Audit Fees	8,541
Supervision Fee	6,000
Total Operating Expenses	<u>46,756</u>
Operating Income (Loss)	233,351
Nonoperating Revenue (Expenses)	
Interest Income	209,017
Investment Expense	(879)
Total Nonoperating Revenue (Expenses)	<u>208,138</u>
Change in Net Position	441,489
Net Position at Beginning of Year	4,956,860
Net Position at End of Year	<u><u>\$ 5,398,349</u></u>

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

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023

Cash Flows from Operating Activities	
Cash Receipts from Premiums	\$ 583,169
Cash Payments for Claims & Claim Adjustment Expense	-
Cash Payments for Management Fees	(25,878)
Cash Payments for Professional Services	(27,956)
Cash Payments for Supervision Fee	(6,000)
Cash Payments for Reinsurance Premiums	(303,062)
Net Cash Provided (Used) by Operating Activities	<u>220,273</u>
 Cash Flows from Investing Activities	
Investment Income	185,289
Investment Expense	(879)
Net Cash Provided (Used) by Investing Activities	<u>184,410</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	
During the Fiscal Year	404,683
 Cash and Cash Equivalents at Beginning of Year	
	5,666,084
Cash and Cash Equivalents at End of Year	<u>\$ 6,070,767</u>
 Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 233,351
Increase/(Decrease) in Liabilities	
Accounts Payable	(923)
Reserve for Claims & Claim Adjustment Expense	(12,155)
Net Cash Provided (Used) by Operating Activities	<u>\$ 220,273</u>

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

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 1 – Organization

The South Dakota Authority Captive Insurance Company, LLC (Captive), a nonprofit limited liability company, was established August 12, 2015. The Captive was established to cover some of the liability risks of six Authorities in the State of South Dakota. The Authorities are: Science and Technology Authority (STA), Building Authority (BA), Health and Educational Facilities Authority (HEFA), Educational Enhancement Funding Corporation (EEFC), Ellsworth Development Authority (EDA), and Housing Development Authority (HDA).

The Captive is governed by a five member Board of Managers who serves as the officers of the Captive. The Board of Managers is responsible for approving premium rates for policies issued by the Company. The Captive Board of Managers holds regularly scheduled meetings in June and November each year. Premiums for the upcoming Policy Period are adopted each year at the June meeting and adjusted, if necessary, at the November meeting. The State of South Dakota Office of Risk Management serves as the manager and performs necessary functions such as underwriting, billing and collecting premiums, investigating and settling claims, accounting, and reporting.

The Captive is a sponsored captive and is comprised of two cells. Cell 1 is the STA and Cell 2 is comprised of the other five authorities. The cells are treated as separate entities for risk sharing purposes.

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

Note 2 – Summary of Significant Accounting Policies

Fund Accounting

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

Basis of Accounting

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

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 2 – Summary of Significant Accounting Policies (Continued)

Revenues and Expenses

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

Cash and Cash Equivalents

Cash and cash equivalents represent the Captive's participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value. The investment income included was the actual interest received for the period ending June 30, 2023 and estimated investment income for the period July 1 – December 31, 2023 which is based on the average daily cash balance and the projected investment earnings rate. Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, SD 57501.

Reserve for Claims and Claim Adjustment Expenses

The Captive established the reserve for claims and claim adjustment expenses based on the estimated ultimate cost of settling the claims. This includes claims that have been reported but not settled, and claims that have been incurred but not reported. Costs of claims include losses, allocated loss adjustment expenses (ALAE), and unallocated loss adjustment expenses (ULAE). ALAE and ULAE are combined on the financial statements and required supplementary information. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the unpaid claims liability. Based on the actuarially determined liability decreasing at year end and no claims being paid in 2023, the expense being reported is negative. The following represents the estimated unpaid claims and claim adjustment expenses for the years ended December 31, 2023, and 2022.

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 2 – Summary of Significant Accounting Policies (Continued)

Reserve for Claims and Claim Adjustment Expenses (Continued)

	<u>2023</u>	<u>2022</u>
Reserve for claims and claim adjustment expense at beginning of fiscal year	\$ 706,035	\$ 770,719
Incurring claims and claim adjustment expense:		
Provision for insured events of the current year	202,740	193,087
Changes in provisions for insured events of prior fiscal years	<u>(214,895)</u>	<u>(53,675)</u>
Total incurred claims and claim adjustment expenses	<u>(12,155)</u>	<u>139,412</u>
Payments:		
Claims and claim adjustment expense attributable to insured events of the current fiscal year	-	-
Claims and claim adjustment expense attributable to insured events of prior fiscal years	<u>-</u>	<u>204,096</u>
Total payments	<u>-</u>	<u>204,096</u>
Reserve for claims and claim adjustment expenses at end of fiscal year	<u>\$ 693,880</u>	<u>\$ 706,035</u>

Premium Revenue

Premiums billed are recognized as revenue over the term of the insurance policies. The Captive has determined there are no unearned premiums at December 31, 2023. The Captive does not consider anticipated investment income in determining if a premium deficiency exists.

Grant Agreement

A grant agreement for the \$2,000,000 appropriated through HB 1187, 2015 Legislative Session, is in effect between the State of South Dakota and the Captive. The agreement states the grant is to be used solely for the purpose of providing liability coverage to the authorities that comprise Cell 2. If any part of the grant is used for unauthorized purposes, that portion shall be repaid to the State of South Dakota. Additionally, in the event the Captive dissolves its existence, any part of the grant remaining, less the reasonable and necessary expenses of winding up the Captive's affairs, and less any amounts required to be maintained on account of claims or potential claims or otherwise required by the South Dakota Division of Insurance or any successor regulatory entity shall be paid to the State of South Dakota. Upon a final determination by a regulatory body with jurisdiction that no further claims reserves are required to be held, any remaining balance of the grant shall be paid to the State of South Dakota.

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 2 – Summary of Significant Accounting Policies (Continued)

Grant Agreement (Continued)

There is no grant agreement for the \$2,500,000 authorized through HB 1186 to be used as initial capital for the Captive. However, Section 14.2 of the operating agreement states that in the event the Captive dissolves, the Board shall distribute any remaining assets to the Members pro rata in accordance with their initial and any subsequent contributions to the Captive.

Reinsurance Premiums

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

Note 3 – Insurance Activity

Premiums written for the year ended December 31, 2023 were as follows:

Premiums written	\$ 583,169
Premiums ceded	<u>(303,062)</u>
Net premiums written	<u><u>\$ 280,107</u></u>

The Captive provides commercial general liability (CGL), directors and officers and entity coverage (D&O), and employment practices liability (EPL) and errors and omissions (E&O). There are separate policies issued to each cell for each type of coverage. General liability for STA includes coverage for general liability claims arising from experiments. The CGL is first dollar occurrence coverage. The D&O, E&O, and EPL have a \$25,000 per occurrence deductible that applies to losses and ALAE combined. The Captive's and reinsurer's policies are written on a calendar year basis.

The Captive provides \$5,000,000 of coverage per occurrence, of which \$1,000,000 is retained by the Captive, and \$4,000,000 is ceded to reinsurers. These limits apply to loss only while ALAE is payable in addition to the limit. One exception is the retroactive coverage, for which the Captive limit is \$1,000,000 and applied to loss and ALAE combined. There is no reinsurance for the retroactive coverage.

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 3 – Insurance Activity (Continued)

Cell 1 of the Captive has excess insurance for losses beyond primary reinsurance limit up to \$70,000,000. The Captive also provides additional CGL coverage for Cell 1 for claims arising from experiments at the STA. This insurance is provided in a separate tower and covers additional insureds above the \$5,000,000 primary reinsurance limits of Cell 1 for losses up to \$35,000,000. This insurance is procured for the STA by the Captive Manager and billed directly to STA.

The amount of losses will be projected by an actuarial firm. The premium is based on estimated losses and ALAE plus administrative costs. Billings are prepared and sent to the authorities on a semi-annual basis.

Note 4 – Regulatory Requirements

The South Dakota Authority Captive Insurance Company, LLC is formed as a non-profit LLC under the laws of the State of South Dakota. As the registered agent for the Captive, the State of South Dakota Office of Risk Management is responsible for filing an annual report with the South Dakota Secretary of State. The annual report is due at the end of the month in which the company was formed. The annual report for the Captive is due each year by August 31.

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

Note 5 – Subsequent Events

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

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 6 – Disaggregation of Financial Statements

The following are the disaggregated financial statements, by cell, of the Authority Captive.

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
STATEMENT OF NET POSITION
December 31, 2023

	Cell 1	Cell 2	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 3,426,321	\$ 2,644,446	\$ 6,070,767
Interest & Dividends Receivable	20,928	17,297	38,225
Total Assets	\$ 3,447,249	\$ 2,661,743	\$ 6,108,992
Liabilities			
Current Liabilities			
Accounts Payable	\$ 10,103	\$ 6,660	\$ 16,763
Reserve for Claims and Claim Adjustment Expense	147,878	44,799	192,677
Total Current Liabilities	157,981	51,459	209,440
Noncurrent Liabilities			
Reserve for Claims and Claim Adjustment Expense	396,971	104,232	501,203
Total Noncurrent Liabilities	396,971	104,232	501,203
Total Liabilities	554,952	155,691	710,643
Net Position			
Unrestricted	2,892,297	2,506,052	5,398,349
Total Net Position	2,892,297	2,506,052	5,398,349
Total Liabilities and Net Position	\$ 3,447,249	\$ 2,661,743	\$ 6,108,992

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 6 – Disaggregation of Financial Statements (Continued)

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2023

	Cell 1	Cell 2	Total
Operating Revenue			
Gross Earned Premiums	\$ 477,545	\$ 105,624	\$ 583,169
Reinsurance Premiums Ceded	(224,191)	(78,871)	(303,062)
Net Earned Premiums	<u>253,354</u>	<u>26,753</u>	<u>280,107</u>
Operating Expense			
Claims and Claim Adjustment Expense (See Note 2)	1,037	(13,192)	(12,155)
Management Fees	13,869	11,304	25,173
Actuarial Fees	6,400	6,400	12,800
Legal Fees	3,322	3,075	6,397
Audit Fees	4,271	4,270	8,541
Supervision Fee	4,600	1,400	6,000
Total Operating Expenses	<u>33,499</u>	<u>13,257</u>	<u>46,756</u>
Operating Income (Loss)	219,855	13,496	233,351
Nonoperating Revenue (Expenses)			
Interest Income	115,874	93,143	209,017
Investment Expense	(481)	(398)	(879)
Total Nonoperating Revenue (Expenses)	<u>115,393</u>	<u>92,745</u>	<u>208,138</u>
Change in Net Position	335,248	106,241	441,489
Net Position at Beginning of Year	<u>2,557,049</u>	<u>2,399,811</u>	<u>4,956,860</u>
Net Position at End of Year	<u>\$ 2,892,297</u>	<u>\$ 2,506,052</u>	<u>\$ 5,398,349</u>

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 6 – Disaggregation of Financial Statements (Continued)

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023

	Cell 1	Cell 2	Total
Cash Flows from Operating Activities			
Cash Receipts from Premiums	\$ 477,545	\$ 105,624	\$ 583,169
Cash Payments for Claims & Claim Adjustment Expense	-	-	-
Cash Payments for Management Fees	(14,972)	(10,906)	(25,878)
Cash Payments for Professional Services	(14,102)	(13,854)	(27,956)
Cash Payments for Supervision Fee	(4,300)	(1,700)	(6,000)
Cash Payments for Reinsurance Premiums	(224,191)	(78,871)	(303,062)
Net Cash Provided (Used) by Operating Activities	219,980	293	220,273
Cash Flows from Investing Activities			
Investment Income	102,935	82,354	185,289
Investment Expense	(481)	(398)	(879)
Net Cash Provided (Used) by Investing Activities	102,454	81,956	184,410
Net Increase (Decrease) in Cash and Cash Equivalents During the Fiscal Year	322,434	82,249	404,683
Cash and Cash Equivalents at Beginning of Year	3,103,887	2,562,197	5,666,084
Cash and Cash Equivalents at End of Year	\$ 3,426,321	\$ 2,644,446	\$ 6,070,767
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 219,855	\$ 13,496	\$ 233,351
Increase/(Decrease) in Liabilities			
Accounts Payable	(912)	(11)	(923)
Reserve for Claims & Claim Adjustment Expense	1,037	(13,192)	(12,155)
Net Cash Provided (Used) by Operating Activities	\$ 219,980	\$ 293	\$ 220,273

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH DAKOTA AUTHORITY CAPTIVE INSURANCE COMPANY, LLC
Ten-Year Claims Development Information
For the Fiscal and Policy Year Ended December 31, 2023

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
1. Required contribution and investment revenue:									
Earned	\$ 188,025	\$ 343,448	\$ 363,836	\$ 430,980	\$ 403,526	\$ 449,191	\$ 429,698	\$ 468,982	\$ 583,169
Ceded	(49,864)	(150,136)	(190,000)	(190,000)	(190,000)	(209,000)	(231,000)	(292,455)	(303,062)
Net earned	138,161	193,312	173,836	240,980	213,526	240,191	198,698	176,527	280,107
Investment revenue	(112)	57,260	50,257	68,239	251,087	179,598	(75,874)	(42,833)	208,138
2. Unallocated expenses	130,623	124,578	81,273	63,936	54,936	44,343	46,960	52,613	58,911
3. Estimated claims and expenses, end of policy year:									
Incurred	55,200	114,911	174,556	114,005	116,063	138,488	387,404	193,087	202,740
Ceded	-	-	-	-	-	-	-	-	-
Net incurred	55,200	114,911	174,556	114,005	116,063	138,488	387,404	193,087	202,740
4. Net Paid (cumulative) as of:									
End of policy year	-	-	77,616	-	-	-	9,552	-	-
One year later	-	-	77,616	-	-	9,432	213,648	-	-
Two years later	-	-	77,616	-	-	9,432	213,648	-	-
Three years later	-	-	77,616	-	-	9,432	-	-	-
Four years later	-	-	77,616	-	-	-	-	-	-
Five years later	-	-	77,616	-	-	-	-	-	-
Six years later	-	-	77,616	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-
6. Reestimated net incurred claims and expenses:									
End of policy year	55,200	114,911	174,556	114,005	116,063	138,488	387,404	193,087	202,740
One year later	61,375	112,718	163,557	109,239	113,840	135,388	437,762	172,857	-
Two years later	58,710	106,142	89,167	101,566	103,184	122,857	349,811	-	-
Three years later	52,305	152,673	74,326	80,575	78,800	95,123	-	-	-
Four years later	32,970	140,206	51,768	53,389	50,097	-	-	-	-
Five years later	19,873	98,714	29,040	28,289	-	-	-	-	-
Six years later	10,286	88,034	13,038	-	-	-	-	-	-
Seven years later	3,762	81,774	-	-	-	-	-	-	-
Eight years later	847	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(54,353)	(33,137)	(161,518)	(85,716)	(65,966)	(43,365)	(37,593)	(20,230)	-

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