

# **SDML Workers' Compensation Fund**

Financial Statements With Supplementary Information  
With Independent Auditor's Report Thereon  
December 31, 2015 and 2014

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RSM US LLP

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of SDML Workers' Compensation Fund (Fund) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SDML Workers' Compensation Fund as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of Claims Development Information on page 14 and a Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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 Schedule of Claims Development 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 of the Fund has not presented the required Management's Discussion and Analysis. Our opinion on the basic financial statements is not affected by this missing information.

*RSM US LLP*

Sioux Falls, South Dakota  
June 22, 2016

**SDML Workers' Compensation Fund**

**Statements of Net Position  
December 31, 2015 and 2014**

	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 4,522,614	\$ 2,982,554
Investments (Note 2):		
Certificates of deposit	5,339,477	2,922,273
Debt securities	518,148	11,775
Receivables:		
Reinsurance recoverable on paid losses (Notes 4 and 6)	368,044	299,563
Member contributions	56,836	68,216
Investment income	63,828	60,648
Other	23,011	-
Prepaid expenses	-	3,010
<b>Total current assets</b>	<b>10,891,958</b>	<b>6,348,039</b>
Long-term investments (Note 2):		
Certificates of deposit	18,246,109	21,045,829
Debt securities	2,505,262	3,103,723
<b>Total long-term investments</b>	<b>20,751,371</b>	<b>24,149,552</b>
Other assets:		
Contributed surplus and member equity in NLC Mutual Insurance Company (Note 5)	1,834,234	1,776,499
	<b>\$ 33,477,563</b>	<b>\$ 32,274,090</b>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Current portion of estimated liability for reported and unreported claims and claims adjustment expenses (Notes 4 and 6)	\$ 3,005,844	\$ 3,141,027
Advance member contributions	2,787,973	2,426,023
Member contributions refundable	555,767	594,100
Accounts payable and accrued expenses	41,058	40,558
<b>Total current liabilities</b>	<b>6,390,642</b>	<b>6,201,708</b>
Estimated liability for reported and unreported claims and claims adjustment expenses, less current portion (Notes 4 and 6)	5,568,211	5,068,212
<b>Total liabilities</b>	<b>11,958,853</b>	<b>11,269,920</b>
Net position (Note 8):		
Unrestricted	21,518,710	21,004,170
	<b>\$ 33,477,563</b>	<b>\$ 32,274,090</b>

See notes to financial statements.

## SDML Workers' Compensation Fund

### Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2015 and 2014

	2015	2014
Operating revenues:		
Member contributions earned, net of renewal and loss control credits of \$1,694,408 and \$1,635,696 in 2015 and 2014, respectively	\$ 6,747,543	\$ 6,545,729
Less: Reinsurance premiums (Note 4)	(592,941)	(589,845)
<b>Net operating revenues</b>	<b>6,154,602</b>	<b>5,955,884</b>
Operating expenses:		
Claims and claims adjustment expenses incurred, net (Notes 3, 4 and 6)	4,544,786	3,757,795
General and administrative expenses:		
Administrative and service fees (Notes 3 and 7)	895,391	871,676
Payroll audit fees	36,000	36,235
Professional fees	34,685	34,161
Board of Trustee fees and expenses	23,850	23,381
Conference expense	18,745	16,211
Actuarial fees	14,500	14,500
Office expense and other	7,426	12,727
Insurance expense	3,529	4,009
Marketing expense	200	200
<b>Total general and administrative expenses</b>	<b>1,034,326</b>	<b>1,013,100</b>
Dividends to members, return on equity credits (Note 8)	439,398	405,403
<b>Total operating expenses</b>	<b>6,018,510</b>	<b>5,176,298</b>
<b>Operating income</b>	<b>136,092</b>	<b>779,586</b>
Nonoperating revenues:		
Net investment income	320,713	477,017
Earned member equity, NLC Mutual Insurance Company (Note 5)	57,735	85,401
<b>Total nonoperating revenues</b>	<b>378,448</b>	<b>562,418</b>
<b>Change in net position</b>	<b>514,540</b>	<b>1,342,004</b>
Net position:		
Beginning of year	21,004,170	19,662,166
End of year	\$ 21,518,710	\$ 21,004,170

See notes to financial statements.

## SDML Workers' Compensation Fund

### Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Contributions received	\$ 7,082,540	\$ 6,452,869
Reinsurance premiums paid	(615,952)	(589,845)
Underwriting and expenses of operations paid	(1,030,816)	(1,043,356)
Claims and claims adjustment expenses paid	(4,248,451)	(3,926,967)
Dividends to members	(439,398)	(405,403)
<b>Net cash provided by operating activities</b>	<b>747,923</b>	<b>487,298</b>
Cash flows from investing activities:		
Debt securities:		
Sales and maturities	12,000	10,322
Certificates of deposit:		
Purchases	(2,538,964)	(6,872,603)
Sales and maturities	2,921,000	5,913,628
Investment income received, net of investment expenses	398,101	418,765
<b>Net cash provided by (used in) investing activities</b>	<b>792,137</b>	<b>(529,888)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,540,060</b>	<b>(42,590)</b>
Cash and cash equivalents:		
Beginning	2,982,554	3,025,144
Ending	<b>\$ 4,522,614</b>	<b>\$ 2,982,554</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 136,092	\$ 779,586
(Increase) decrease in assets:		
Reinsurance recoverable on paid losses	(68,481)	(809)
Member contributions receivable	11,380	(15,753)
Other receivables	(23,011)	-
Prepaid expenses	3,010	5,159
Increase (decrease) in liabilities:		
Estimated liability for reported and unreported claims and claims adjustment expenses	364,816	(166,455)
Advance member contributions	361,950	(49,509)
Member contributions refundable	(38,333)	(27,598)
Accounts payable and accrued expenses	500	(37,323)
<b>Net cash provided by operating activities</b>	<b>\$ 747,923</b>	<b>\$ 487,298</b>
Supplemental disclosure of noncash investing and financing activities:		
Net increase (decrease) in the fair value of investments	<b>\$ (81,050)</b>	<b>\$ 60,804</b>

See notes to financial statements.

## SDML Workers' Compensation Fund

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies

**Reporting entity:** SDML Workers' Compensation Fund (the Fund) was formed in 1986 to provide workers compensation coverage for member organizations belonging to the South Dakota Municipal League (SDML) and the South Dakota Association of County Commissioners (SDACC). There were 416 and 406 members of the Fund in 2015 and 2014, respectively, all of which are 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 follows:

**Basis of presentation:** The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting.

**Use of 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 and aggregate agreements, and the determination of estimated fair values of investments.

**Cash and cash equivalents:** For purposes of reporting the statements of cash flows, the Fund includes as cash equivalents all cash accounts and money market mutual funds which are not subject to withdrawal restrictions or penalties and have a maturity of three months or less at the date of acquisition. Certificates of deposit are considered investments as all have been purchased with maturities in excess of three months.

**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, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.



## SDML Workers' Compensation Fund

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Investments:** The Fund reports investments (other than certificates of deposit) at fair value in the statements of net position with changes in the fair value of investments reported as investment income. The fair value of investment securities is estimated based on quoted market prices for these or similar investments. If quoted market prices are not available, fair values are based upon quoted or observable market prices of comparable instruments. Certificates of deposit 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.

**Member Equity in NLC Mutual Insurance Company:** The Fund records its share of net increases (decreases) in net assets of NLC Mutual Insurance Company as income (loss) in the Fund's statements of revenue, expenses and changes in net position and adds (deducts) such amounts to (from) the investment account.

**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.

**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.

## SDML Workers' Compensation Fund

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**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 1.75 percent as of December 31, 2015 and 2014, which had the effect of reducing this liability as of December 31, 2015 and 2014, by approximately \$591,000 and \$471,000, 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 which have been reported, plus a provision for claims and costs incurred but not yet reported. A provision for inflation in the calculation of estimated future 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, 2015 and 2014.

**Recently issued pronouncements:** The Governmental Accounting Standards Board (GASB) has issued Statement No. 72, *Fair Value Measurement and Application* (Statement 72), which addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for the Fund for the year ending December 31, 2016. This guidance is not expected to have a material impact on the Fund's financial statements.

#### Note 2. Deposits and Investments

The Fund's deposits as of December 31, 2015 and 2014, consist of cash, money market funds and certificates of deposit with book balances totaling \$28,108,200 and \$26,950,656, respectively.

**Custodial credit risk – deposits:** 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 which is insured by the FDIC 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, 2015 and 2014, the Fund had open-end money market fund balances of \$3,121,379 and \$2,867,203, respectively.

## SDML Workers' Compensation Fund

### Notes to Financial Statements

#### Note 2. Deposits and Investments (Continued)

**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, 2015, the Fund had the following fixed income securities and maturities:

Investment Type	Fair Value/ Carrying Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. treasury issues	\$ 2,224,691	\$ 512,150	\$ -	\$ 1,313,400	\$ 399,141
U.S. treasury securities, zero coupon bonds	798,719	5,998	792,721	-	-
Total	<u>\$ 3,023,410</u>	<u>\$ 518,148</u>	<u>\$ 792,721</u>	<u>\$ 1,313,400</u>	<u>\$ 399,141</u>

As of December 31, 2014, the Fund had the following fixed income securities and maturities:

Investment Type	Fair Value/ Carrying Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. treasury issues	\$ 2,311,871	\$ -	\$ 545,840	\$ 1,356,249	\$ 409,782
U.S. treasury securities, zero coupon bonds	803,627	11,775	791,852	-	-
Total	<u>\$ 3,115,498</u>	<u>\$ 11,775</u>	<u>\$ 1,337,692</u>	<u>\$ 1,356,249</u>	<u>\$ 409,782</u>

The net increase (decrease) in the fair value of investments during 2015 and 2014 was \$(81,050) and \$60,804, 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 \$962 and \$1,678 and gross realized investment losses were \$12,480 and \$22,683 for the years ended December 31, 2015 and 2014, respectively. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and current year.

**Custodial credit risk – investments:** 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.

**Credit risk:** The Fund's approved investment policy and 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 its investment footnote disclosures.

## SDML Workers' Compensation Fund

### Notes to Financial Statements

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#### Note 2. Deposits and Investments (Continued)

**Concentration of credit risk:** The Fund's investment policy states that no individual security may have a principal value or face amount greater than 10 percent of the account's total market value at the time of acquisition, except related to repurchase agreements fully collateralized by securities of the United States government and securities guaranteed by the United States government either directly or indirectly.

#### Note 3. Service Agreements

The Fund has an agreement with Insurance Benefits, Inc. (IBI) to provide program administration for the Fund. The agreement expires December 31, 2019. The 2015 base fee will be adjusted on an annual basis by the greater of 3.5 percent or the annual change in the Consumer Price Index. Fees incurred under the agreement in 2015 and 2014 were \$430,361 and \$416,108, 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, 2019. The 2015 base fee will be adjusted on an annual basis by the greater of 3.5 percent or the annual change in the Consumer Price Index. The Fund has a deposit of \$300,000 with CAI that will be applied towards 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 2015 and 2014 were \$1,201,206 and \$1,027,159, respectively.

Combined fees incurred to IBI and CAI under these agreements totaled \$1,631,567 and \$1,443,267 in 2015 and 2014, respectively, of which \$1,244,242 and \$1,068,770, respectively, are included in claims and claims adjustment expenses incurred and the remainder are included in general and administrative expenses.

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, 2019. The 2015 base fee will be adjusted on an annual basis by the greater of 3.5 percent or the annual change in the Consumer Price Index. Fees incurred in 2015 and 2014 were \$310,415 and \$302,228, respectively and are included in general and administrative expenses.

The Fund maintains agency accounts with BankWest under a custodial agreement. Fees incurred to BankWest during 2015 and 2014 were \$92,704 and \$88,535, respectively, of which approximately 60 percent is allocated to investment expenses and the remainder is allocated to general and administrative expenses.

#### Note 4. Reinsurance

The Fund utilizes reinsurance agreements to limit maximum loss and minimize exposures on larger risks. During both 2015 and 2014, 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 would be liable for any obligations that the reinsurance companies are unable to meet under the reinsurance agreements. Reinsurance recoverables under reinsurance agreements on paid losses as of December 31, 2015 and 2014, were \$368,044 and \$299,563, respectively. Reinsurance amounts of \$9,272,164 and \$9,844,703 were deducted from the estimated liability for reported and unreported claims and claims adjustment expenses as of December 31, 2015 and 2014, respectively. During 2015 and 2014, claims expenses were reduced by \$658,093 and \$475,863, respectively, related to recoveries from reinsurance companies under contract.

## **SDML Workers' Compensation Fund**

### **Notes to Financial Statements**

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#### **Note 4. Reinsurance (Continued)**

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, approximately \$2,504,000 and \$2,604,000 are not reported as an asset or as a liability in the statements of net position as of December 31, 2015 and 2014, respectively.

#### **Note 5. NLC Mutual**

In prior years, the Fund had reinsurance coverage with NLC Mutual Insurance Company (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 by-laws.

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 percent of Capital and no longer than 10 years at 100 percent of Capital. This distribution of Capital also requires the approval of NLC Mutual's Board of Directors and the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration.

The Fund made no capital contributions to NLC Mutual in 2015 and 2014. As of December 31, 2015 and 2014, the Fund's Capital account balance was \$1,834,234 and \$1,776,499, respectively.

## SDML Workers' Compensation Fund

### Notes to Financial Statements

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#### Note 6. 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, 2015, 2014 and 2013 (amounts in thousands).

	2015	2014	2013
Reported and unreported claims and claims adjustment expense liabilities at beginning of year	\$ 8,209	\$ 8,376	\$ 8,944
Incurred claims and claims adjustment expenses:			
Provision for insured events of the current year	5,362	5,209	6,324
Provision for insured events of prior years	(817)	(1,451)	(1,858)
Total incurred claims and claims adjustment expenses	4,545	3,758	4,466
Payments:			
Claims and claims adjustment expenses attributable to insured events of the current year	2,484	2,346	3,090
Claims and claims adjustment expenses attributable to insured events of prior years	1,764	1,581	1,974
Total payments	4,248	3,927	5,064
Less reinsurance recoverables at beginning of year	(300)	(298)	(268)
Plus reinsurance recoverables at end of year	368	300	298
Reported and unreported claims and claims adjustment expense liabilities at end of year	\$ 8,574	\$ 8,209	\$ 8,376

The 2015, 2014 and 2013 decreases in prior years' provisions of incurred claims and claims adjustment expenses resulted from positive loss development experience as more information became known and payments made, offset by accretion of discount on claims liabilities.

#### Note 7. Related Party Transactions

SDML and SDACC are the sponsoring organizations of the Fund. SDML performs management services for the Fund. Expenses incurred to SDML in 2015 and 2014 were \$49,087 and \$47,657, respectively. During 2015 and 2014, \$64,138 and \$63,993, respectively of endorsement fees were paid to SDML, in which a member of the Fund's Board of Trustees is also the executive director of SDML.

During 2015 and 2014, \$42,759 and \$42,662, respectively of endorsement fees were paid to the SDACC, in which a member of the Fund's Board of Trustees is also the executive director of the SDACC.

## **SDML Workers' Compensation Fund**

### **Notes to Financial Statements**

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#### **Note 8. 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 \$439,398 and \$405,403 during the years ended December 31, 2015 and 2014, respectively. Renewal and loss control credits were \$1,694,408 and \$1,635,696 during the years ended December 31, 2015 and 2014, respectively. Return on equity credits are reported as an expense of the Fund and 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, 2015, this amount was approximately \$9,241,000.

**SDML Workers' Compensation Fund**

**Required Supplementary Information - Schedule of Claims Development Information - Unaudited**

**For the Ten Years Ended December 31, 2015**

**(Dollars in Thousands)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net earned member contributions and investment income:										
Earned	\$ 5,264	\$ 5,834	\$ 6,170	\$ 6,145	\$ 6,753	\$ 6,976	\$ 6,658	\$ 6,468	\$ 7,023	\$ 7,068
Ceded	282	319	391	399	436	400	474	541	590	593
<b>Net earned</b>	<b>4,982</b>	<b>5,515</b>	<b>5,779</b>	<b>5,746</b>	<b>6,317</b>	<b>6,576</b>	<b>6,184</b>	<b>5,927</b>	<b>6,433</b>	<b>6,475</b>
Unallocated expenses	661	685	773	831	887	929	926	968	1,013	1,034
Estimated claims and expenses, end of policy year:										
Incurred	5,871	5,905	4,604	4,820	6,315	6,649	5,450	6,859	5,685	6,020
Ceded	1,548	716	245	388	653	383	675	535	476	658
<b>Net incurred</b>	<b>4,323</b>	<b>5,189</b>	<b>4,359</b>	<b>4,432</b>	<b>5,662</b>	<b>6,266</b>	<b>4,775</b>	<b>6,324</b>	<b>5,209</b>	<b>5,362</b>
Net paid (cumulative) as of:										
End of policy year	1,330	1,645	1,625	1,555	2,202	1,976	2,003	3,090	2,346	2,484
One year later	2,046	2,897	2,579	2,402	3,157	3,689	2,795	4,114	3,134	
Two years later	2,571	3,199	3,090	2,638	3,696	4,473	2,911	4,801		
Three years later	2,670	3,233	3,186	3,440	3,863	4,579	2,965			
Four years later	2,757	3,218	3,331	3,491	4,063	4,621				
Five years later	2,818	3,280	3,454	3,232	4,101					
Six years later	2,835	3,261	3,489	3,239						
Seven years later	3,075	3,451	3,500							
Eight years later	3,085	3,458								
Nine years later	3,097									
Reestimated ceded claims and expenses	114	1,354	89	-	-	222	-	142	-	-
Reestimated net incurred claims and expenses:										
End of policy year	4,323	5,189	4,359	4,432	5,662	6,266	4,775	6,324	5,209	5,362
One year later	3,600	4,189	4,060	3,989	4,912	5,639	3,984	6,130	4,509	
Two years later	3,374	3,881	3,907	3,785	4,861	5,396	3,359	5,964		
Three years later	3,202	3,726	4,198	3,849	4,548	5,002	3,233			
Four years later	3,299	3,598	3,946	3,745	4,812	4,957				
Five years later	3,195	3,723	3,627	3,534	4,746					
Six years later	2,983	3,603	3,731	3,565						
Seven years later	3,210	3,608	3,774							
Eight years later	3,207	3,618								
Nine years later	3,173									
Increase (decrease) in estimated net incurred claims and expenses from end of policy year	\$ (1,150)	\$ (1,571)	\$ (585)	\$ (867)	\$ (916)	\$ (1,309)	\$ (1,542)	\$ (360)	\$ (700)	\$ -