



## Instructions for completing the Audited Financial Statement

**Please note: For Core & Series structures, audited financials may be performed on either a combined or individual entity basis at the Captive Managers discretion. No approval is required.**

The purpose of the Audited Financial Statement Instructions issued by the Delaware Department of Insurance (DEDOI), Bureau of Captive and Financial Insurance Products, is to address the unique and innovative Delaware captive structures and provide regulatory and audit guidance for Delaware domestics. The Audited Financial Statement Instructions will serve as a living document to be updated at least annually and issued in December of each year for communication of regulatory, industry, as well as Financial Accounting Standards Board updates that may impact financial reporting of Delaware captive domestics.

### Audited Financial Statement Documents Applicable to All Delaware Captive Entities

Below is an excerpt of audit documents identified pursuant to the 18. Del. Adm. Code 302 Captive Insurance Financial Regulation, which are subject to all Delaware captive legal entity formations including; Pure Captive Insurance Company, Special Purpose Captive Insurance Company to include Series Captive Insurance Companies (“Series”) and Core Captives, Special Purpose Financial Captive Insurance Company and Sponsored Captive Insurance Company. The listing below is intended to highlight certain items required to be filed with the DEDOI in order to comply with 18. Del. Adm. Code 302. This listing is not all inclusive and companies are reminded to refer to the Regulation for specific filing requirements.

The following audit documents are required to be completed and filed:

- Annual Audited Financial Statement including the Auditor’s Opinion to be filed with the DEDOI by June 30<sup>th</sup>.
- The Auditors Report on Internal Control and Material Weaknesses Letter should be filed with the Audit Report and Opinion by June 30<sup>th</sup>.
- The Accountants Letter of Qualifications should be filed with the Audit Report and Opinion by June 30<sup>th</sup>.
- An audit difference, whether on a combined or individual basis resulting in adverse financial condition requires immediate written notification to the Company’s Captive Manager and Governing Body. Such written notification is to be provided to the DEDOI within five business days.



The Auditor is to make available upon DEDOI request all work papers to support of the Auditor’s Opinion.

Auditor’s Report: Individual vs. Consolidated

The below chart identifies guidance and best practices for Audited Financial Statement disclosures. The chart distinguishes guidance for the overall Audit Opinion on an individual legal entity basis including; Core Captive Insurance Company, Special Purpose Financial Captive Insurance Company, Sponsored Captive Insurance Company and Special Purpose Captive Insurance Companies not reporting on a consolidate basis. 18 Del. Adm. Code 302 allows for Consolidated Audited Financial Statements, pursuant to DEDOI approval. The consolidated filing of the Audit Opinion and Audit Report, includes Special Purpose Captive Insurance Company formations with one Core and Series entities.

The table is intended to provide direction in terms of Regulatory requirements and suggestive items for disclosure to assist in Regulatory reviews. For an all inclusive listing of required disclosures please refer to the Financial Accounting Standards Board (FASB) Codification for reporting of Generally Accepted Accounting Procedures (GAAP), for Captives reporting in GAAP.

<b>Individual Audited Financial Statement</b>	<b>Consolidated Audited Financial Statement</b>
<b><i>Audit Opinion</i></b>	<b><i>Audit Opinion</i></b>
<ul style="list-style-type: none"> <li>• One Audit Opinion for one entity.</li> <li>• Possible going concern issue requires disclosure in an unqualified opinion.</li> </ul>	<ul style="list-style-type: none"> <li>• One Audit Opinion for multiple entities.</li> <li>• Possible going concern issue requires disclosure in an unqualified opinion. Going concern should be tested and disclosed on for each applicable Series and/or Core.</li> </ul>
<b><i>Audited Financial Statement Notes</i></b>	<b><i>Audited Financial Statement Notes</i></b>
<ul style="list-style-type: none"> <li>• Summary of Significant Accounting Policies.</li> <li>• Nature of operations and principal place of business.</li> </ul>	<ul style="list-style-type: none"> <li>• Summary of Significant Accounting Policies.</li> <li>• Nature of operations and principal place of business. Should identify Core and applicable Series licensed as of the audit date as well as any dissolved or converted entities.</li> </ul>
<ul style="list-style-type: none"> <li>• Summary of ownership and relationships of the company and all</li> </ul>	<ul style="list-style-type: none"> <li>• Summary of ownership and relationships of the company and all affiliated entities.</li> </ul>



affiliated entities.	
<ul style="list-style-type: none"> <li>Premium receivable balances for premiums due and uncollected. First quarter collection efforts and any remaining past due amounts from year-end that have not been collected beyond first quarter.</li> </ul>	<ul style="list-style-type: none"> <li>Premium receivable balances for premiums due and uncollected, broken out by Series. First quarter collection efforts and any remaining past due amounts from year-end that have not been collected beyond first quarter.</li> </ul>
<ul style="list-style-type: none"> <li>Reinsurance transactions including; receivables and payables as well as Funds Held balances.</li> </ul>	<ul style="list-style-type: none"> <li>Reinsurance transactions including; receivables and payables as well as Funds Held balances. Reinsurance premiums receivable broken out by Series.</li> </ul>
<ul style="list-style-type: none"> <li>Investment transactions including disclosures for marketable securities.</li> </ul>	<ul style="list-style-type: none"> <li>Investment transactions including disclosures for marketable securities.</li> </ul>
<ul style="list-style-type: none"> <li>Liabilities for unpaid losses and loss adjustment expenses.</li> </ul>	<ul style="list-style-type: none"> <li>Liabilities for unpaid losses and loss adjustment expenses.</li> </ul>
<ul style="list-style-type: none"> <li>Related party transactions including loans made to stockholders/shareholders and other parties.</li> </ul>	<ul style="list-style-type: none"> <li>Related party transactions including loans made to stockholders/shareholders and other parties.</li> </ul>
<ul style="list-style-type: none"> <li>Changes in stockholders equity including capital stock, paid-in-capital, retained earnings, treasury stock, dividends, Letter of Credit and other capital changes.</li> </ul>	<ul style="list-style-type: none"> <li>Changes in stockholders equity including capital stock, paid-in-capital, retained earnings, treasury stock, dividends, Letter of Credit and other capital changes.</li> </ul>
<ul style="list-style-type: none"> <li>Subsequent event disclosures.</li> </ul>	<ul style="list-style-type: none"> <li>Subsequent event disclosures.</li> </ul>
<ul style="list-style-type: none"> <li>Schedule of Reconciliation of audit differences with written description of nature of these differences.</li> </ul>	<ul style="list-style-type: none"> <li>Schedule of Reconciliation of audit differences with written description of nature of these differences.</li> </ul>
	<ul style="list-style-type: none"> <li>Supplemental schedule identifying each legal entity encompassing the consolidated amount (i.e. Core and individual Series Business Units) audited Balance Sheet amounts totaling assets, liabilities and equity as well as Income Statement amounts.</li> </ul>

What is the Auditor required to report in disclosing audit differences from the filed Annual Audited Financial Statement?



18 Del. Adm. Code 302 requires auditors to disclose in the audited Notes to the Financial Statements a reconciliation of differences, if any, between the audited financial statements and the annual report. The schedule should be in line item format, which should ultimately reconcile Total Assets, Liabilities, Capital and Surplus and Net Income. The schedule should also include detailed notes about the differences and how these occurred. Refer to the example below.

<u>Balance Sheet</u>	<u>Per Annual Report</u>	<u>Per Audited Financial Statements</u>	<u>Difference</u>
Assets:			
Cash & Cash Equivalents	\$300,00	\$250,000	(\$50,000)
Investments	\$200,000	\$250,000	\$50,000
Total Assets	\$500,000	\$500,000	\$0

Example explanation for chart above; bank CD held by Series A was included in Cash and Cash Equivalents in the Annual Report and is included in Investments in the combined Audited Financial Statements.

What reporting requirements are there for disclosure of individual entities within the consolidated report?

Special Purpose Captives, which contain a core company and multiple Series are required to submit a combining Balance Sheet and Income Statement, broken out by each Series Captive.

What updates have recently been released by the FASB that may impact Delaware Captive's?

Presentation of Financial Statements Going Concern (Subtopic 205-40), disclosure of uncertainties about an entity's ability to continue as a going concern. Amendments to applicable codification for going concern will require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in the U.S. auditing standards. Specifically such amendments provide the following:

1. Defines "substantial doubt";
2. Requires an evaluation every reporting period including interim periods;
3. Provide principals for considering the mitigating effect of management's plan;
4. Require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plan;
5. Require an express statement and other disclosures when substantial doubt is not alleviated and;
6. Require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued).



Such amendments take effect for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter.

### Contacts

The Bureau of Captive and Financial Insurance Products strives to provide up to date guidance and industry changes, please contact us with any feedback, recommendations or updates that should be included. Please contact Jamie Bafundo or Rasa Zubielaite by phone or email.

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