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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

Date: January 3, 2017

To: SD Department of Social Services  
SD State Board of Internal Control

Re: Audit Report on – Senior Citizens Services, Inc.  
d/b/a Active Generations  
As of and for the year ended June 30, 2016  
By: Eide Bailly, LLP, CPAs

We have accepted the final report on the audit of the above-named entity conducted under the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does identify audit findings pertaining to federal award programs administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See page 27. Accordingly, you are required to issue a management decision on the audit findings within six months after receipt of this audit report (OMB Uniform Guidance §200.331(d)(3)).

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA  
Auditor General

MLG:sld

Enclosure



Financial Statements  
June 30, 2016 and 2015

**Senior Citizens Services, Inc.**  
**d/b/a Active Generations**

Senior Citizens Services, Inc. d/b/a Active Generations

Table of Contents

June 30, 2016 and 2015

---

Independent Auditor's Report.....	1
Financial Statements	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Functional Expenses .....	5
Statements of Cash Flows .....	7
Notes to Financial Statements .....	8
Schedule of Expenditures of Federal Awards .....	16
Schedule of Prior Year Audit Findings.....	18
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 <i>Government Auditing Standards</i> .....	21
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance .....	23
Schedule of Findings and Questioned Costs.....	25



CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

The Board of Directors  
Senior Citizens Services, Inc. d/b/a Active Generations  
Sioux Falls, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of Senior Citizens Services, Inc. d/b/a Active Generations (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Senior Citizens Services, Inc. d/b/a Active Generations as of June 30, 2016 and 2015, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2016 on our consideration of Senior Citizens Services, Inc. d/b/a Active Generations' 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 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 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 Senior Citizens Services, Inc. d/b/a Active Generations' internal control over financial reporting and compliance.



Sioux Falls, South Dakota  
December 9, 2016

Senior Citizens Services, Inc. d/b/a Active Generations  
 Statements of Financial Position  
 June 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 104,013	\$ 262,324
Grants receivable	97,297	103,764
Prepaid expenses	40,570	20,836
Total current assets	241,880	386,924
Property and Equipment, Net	2,340,177	2,384,519
Other Assets		
Investments - designated for property and equipment replacement	253,835	202,142
Interest in Sioux Falls Area Community Foundation	1,503,365	1,529,077
Total other assets	1,757,200	1,731,219
	\$ 4,339,257	\$ 4,502,662
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 86,698	\$ 59,712
Accrued liabilities	137,370	156,302
Deferred revenue	84,540	184,628
Total current liabilities	308,608	400,642
Net Assets		
Unrestricted	3,457,010	3,587,363
Temporarily restricted	58,982	-
Permanently restricted	514,657	514,657
Total net assets	4,030,649	4,102,020
	\$ 4,339,257	\$ 4,502,662

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Public Support and Revenue				
Public support				
Donations, sponsorships, and friends	\$ -	\$ 7,558	\$ -	\$ 7,558
Sioux Empire United Way	-	297,046	-	297,046
Fundraising	229,468	26,410	-	255,878
Private grants	15,000	15,000	-	30,000
Government grants				
Federal and State	-	1,506,612	-	1,506,612
City of Sioux Falls	-	59,920	-	59,920
Total public support	<u>244,468</u>	<u>1,912,546</u>	<u>-</u>	<u>2,157,014</u>
Revenue				
Program donations and fees	-	879,234	-	879,234
Rental income	10,641	-	-	10,641
Center activities	337,777	-	-	337,777
Newspaper advertising and subscriptions	51,437	-	-	51,437
Memberships	99,915	-	-	99,915
Investment income	10,048	-	-	10,048
Loss on sale of property and equipment	(443)	-	-	(443)
Total revenue	<u>509,375</u>	<u>879,234</u>	<u>-</u>	<u>1,388,609</u>
Release from restrictions				
Satisfaction of purpose restrictions	<u>2,732,798</u>	<u>(2,732,798)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>3,486,641</u>	<u>58,982</u>	<u>-</u>	<u>3,545,623</u>
Expenses				
Nutrition	1,543,312	-	-	1,543,312
Transportation	1,190	-	-	1,190
Daycare	653,611	-	-	653,611
Center activities	693,602	-	-	693,602
SHIINE	164,958	-	-	164,958
Outreach	170,263	-	-	170,263
Caregiver	65,501	-	-	65,501
Management and general	215,963	-	-	215,963
Fundraising	108,594	-	-	108,594
Total expenses	<u>3,616,994</u>	<u>-</u>	<u>-</u>	<u>3,616,994</u>
Change in Net Assets	(130,353)	58,982	-	(71,371)
Beginning Net Assets	<u>3,587,363</u>	<u>-</u>	<u>514,657</u>	<u>4,102,020</u>
Ending Net Assets	<u>\$ 3,457,010</u>	<u>\$ 58,982</u>	<u>\$ 514,657</u>	<u>\$ 4,030,649</u>

See Notes to Financial Statements

Senior Citizens Services, Inc. d/b/a Active Generations  
 Statements of Activities  
 Years Ended June 30, 2016 and 2015

2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 16,043	\$ -	\$ 16,043
-	285,810	-	285,810
46,722	60,208	-	106,930
-	-	-	-
-	1,172,045	-	1,172,045
-	59,920	-	59,920
<u>46,722</u>	<u>1,594,026</u>	<u>-</u>	<u>1,640,748</u>
-	894,027	-	894,027
12,641	-	-	12,641
371,060	7,050	-	378,110
47,816	-	-	47,816
102,570	-	-	102,570
12,182	-	-	12,182
-	-	-	-
<u>546,269</u>	<u>901,077</u>	<u>-</u>	<u>1,447,346</u>
<u>2,495,103</u>	<u>(2,495,103)</u>	<u>-</u>	<u>-</u>
<u>3,088,094</u>	<u>-</u>	<u>-</u>	<u>3,088,094</u>
1,501,863	-	-	1,501,863
2,981	-	-	2,981
596,618	-	-	596,618
681,115	-	-	681,115
118,253	-	-	118,253
21,189	-	-	21,189
2,504	-	-	2,504
195,419	-	-	195,419
81,780	-	-	81,780
<u>3,201,722</u>	<u>-</u>	<u>-</u>	<u>3,201,722</u>
(113,628)	-	-	(113,628)
<u>3,700,991</u>	<u>-</u>	<u>514,657</u>	<u>4,215,648</u>
<u>\$ 3,587,363</u>	<u>\$ -</u>	<u>\$ 514,657</u>	<u>\$ 4,102,020</u>



	Program Services					
	Nutrition Program	Transportation	Day Care	Center Activities	SHIINE	Outreach
Salaries	\$ 492,178	\$ -	\$ 386,610	\$ 262,136	\$ 92,727	\$ 49,311
Payroll Taxes and Fringe Benefits	115,630	40	64,157	45,706	14,626	6,102
Total salary and related expenses	607,808	40	450,767	307,842	107,353	55,413
Food Costs	667,825	-	9,611	737	-	-
Operating Supplies	57,815	-	27,298	38,604	6,850	7,768
Professional Fees	31,268	-	19,719	17,138	4,767	32,151
Office Supplies	3,918	-	3,837	4,514	8,026	1,109
Purchased Services	18,407	1,095	6,482	10,143	7,400	-
Recreational Activities	-	-	-	29,848	-	-
Telephone	4,286	-	5,003	3,515	5,424	1,170
Postage	6,314	-	1,869	9,822	1,025	356
Property Taxes	274	-	215	146	52	27
Repairs and Maintenance	35,234	-	18,606	52,336	-	-
Utilities	24,829	-	17,175	47,583	-	-
Interest	-	-	-	-	-	-
Printing and Publishing	9,466	-	5,414	24,892	4,078	3,337
Gas and Oil	3,957	-	-	-	-	-
Travel and Training	5,910	-	10,842	2,983	9,453	28,251
Insurance and Bonds	16,785	55	9,646	9,209	-	-
Dues and Subscriptions	1,590	-	2,938	2,307	146	541
Rent	-	-	8,400	-	-	-
Advertising and Commissions	3,474	-	1,795	21,867	8,351	39,295
Animeals	12,900	-	-	-	-	-
Sammons Grant	-	-	14,980	-	-	-
Miscellaneous	706	-	4,789	2,638	1,103	478
Total expenses before depreciation	1,512,766	1,190	619,386	586,124	164,028	169,896
Depreciation	30,546	-	34,225	107,478	930	367
Total Expenses	\$ 1,543,312	\$ 1,190	\$ 653,611	\$ 693,602	\$ 164,958	\$ 170,263
Total Expenses Before Depreciation - 2015	\$ 1,475,166	\$ 2,981	\$ 565,291	\$ 570,424	\$ 118,166	\$ 21,132
Depreciation - 2015	26,697	-	31,327	110,691	87	57
Total Expenses - 2015	\$ 1,501,863	\$ 2,981	\$ 596,618	\$ 681,115	\$ 118,253	\$ 21,189

See Notes to Financial Statements

Senior Citizens Services, Inc. d/b/a Active Generations  
 Statements of Functional Expenses  
 Year Ended June 30, 2016 with Comparative Totals for 2015

Caregiver	Total Program Services	Supporting Services			Total Expenses	
		Management and General	Fundraising	Total Supporting Services	2016	2015
\$ 40,932	\$ 1,323,894	\$ 130,935	\$ 59,992	\$ 190,927	\$ 1,514,821	\$ 1,351,363
9,196	255,457	25,265	9,006	34,271	289,728	267,614
<u>50,128</u>	<u>1,579,351</u>	<u>156,200</u>	<u>68,998</u>	<u>225,198</u>	<u>1,804,549</u>	<u>1,618,977</u>
-	678,173	-	-	-	678,173	661,655
4,845	143,180	-	417	417	143,597	119,704
545	105,588	-	12,681	12,681	118,269	60,673
705	22,109	2,187	341	2,528	24,637	15,898
-	43,527	3,573	-	3,573	47,100	45,940
-	29,848	-	-	-	29,848	26,489
205	19,603	1,939	-	1,939	21,542	17,407
62	19,448	1,923	221	2,144	21,592	19,789
23	737	73	33	106	843	269
282	106,458	9,257	-	9,257	115,715	119,400
-	89,587	7,790	-	7,790	97,377	105,495
-	-	-	-	-	-	130
567	47,754	4,723	2,017	6,740	54,494	46,067
-	3,957	-	-	-	3,957	4,283
6,378	63,817	6,312	418	6,730	70,547	23,478
-	35,695	3,104	2,329	5,433	41,128	37,318
134	7,656	757	915	1,672	9,328	11,038
-	8,400	-	-	-	8,400	8,400
1,627	76,409	-	2,936	2,936	79,345	29,427
-	12,900	-	-	-	12,900	5,987
-	14,980	-	-	-	14,980	-
-	9,714	961	17,288	18,249	27,963	38,339
<u>65,501</u>	<u>3,118,891</u>	<u>198,799</u>	<u>108,594</u>	<u>307,393</u>	<u>3,426,284</u>	<u>3,016,163</u>
-	173,546	17,164	-	17,164	190,710	185,559
<u>\$ 65,501</u>	<u>\$ 3,292,437</u>	<u>\$ 215,963</u>	<u>\$ 108,594</u>	<u>\$ 324,557</u>	<u>\$ 3,616,994</u>	<u>\$ 3,201,722</u>
\$ 2,504	\$ 2,755,664	\$ 178,719	\$ 81,780	\$ 260,499	\$ -	\$ 3,016,163
-	168,859	16,700	-	16,700	-	185,559
<u>\$ 2,504</u>	<u>\$ 2,924,523</u>	<u>\$ 195,419</u>	<u>\$ 81,780</u>	<u>\$ 277,199</u>	<u>\$ -</u>	<u>\$ 3,201,722</u>

	Program Services					
	Nutrition Program	Transportation	Day Care	Center Activities	SHIINE	Outreach
Salaries	\$ 495,461	\$ 503	\$ 356,349	\$ 248,223	\$ 74,804	\$ 13,948
Payroll Taxes and Fringe Benefits	114,117	62	62,145	46,222	13,002	1,553
Total salary and related expenses	609,578	565	418,494	294,445	87,806	15,501
Food Costs	650,813	-	9,971	871	-	-
Operating Supplies	59,722	-	23,982	34,348	994	255
Professional Fees	21,535	-	15,671	13,116	3,193	3,900
Office Supplies	3,711	-	3,474	4,362	2,427	248
Purchased Services	18,569	2,236	5,071	11,197	5,200	-
Recreational Activities	383	-	-	26,106	-	-
Telephone	3,199	-	5,146	3,057	3,659	779
Postage	4,455	-	1,730	10,536	1,061	-
Property Taxes	99	-	71	49	15	3
Repairs and Maintenance	29,175	-	26,775	53,898	-	-
Utilities	27,678	-	18,076	51,301	-	-
Interest	48	-	35	24	7	1
Printing and Publishing	6,872	-	6,293	25,890	1,972	160
Gas and Oil	4,283	-	-	-	-	-
Travel and Training	4,373	-	6,114	2,129	7,945	285
Insurance and Bonds	18,299	180	4,945	8,987	-	-
Dues and Subscriptions	2,206	-	3,059	3,734	482	-
Rent	-	-	8,400	-	-	-
Advertising and Commissions	2,469	-	2,842	21,830	1,866	-
Animeals	5,987	-	-	-	-	-
Miscellaneous	1,712	-	5,142	4,544	1,539	-
Total expenses before depreciation	1,475,166	2,981	565,291	570,424	118,166	21,132
Depreciation	26,697	-	31,327	110,691	87	57
Total Expenses	\$ 1,501,863	\$ 2,981	\$ 596,618	\$ 681,115	\$ 118,253	\$ 21,189

See Notes to Financial Statements

Senior Citizens Services, Inc. d/b/a Active Generations  
Statement of Functional Expenses  
Year Ended June 30, 2015

Caregiver	Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
		Management and General	Fundraising		
\$ 445	\$ 1,189,733	\$ 117,666	\$ 43,964	\$ 161,630	\$ 1,351,363
47	237,148	23,454	7,012	30,466	267,614
<u>492</u>	<u>1,426,881</u>	<u>141,120</u>	<u>50,976</u>	<u>192,096</u>	<u>1,618,977</u>
-	661,655	-	-	-	661,655
299	119,600	-	104	104	119,704
1,678	59,093	-	1,580	1,580	60,673
23	14,245	1,409	244	1,653	15,898
-	42,273	3,667	-	3,667	45,940
-	26,489	-	-	-	26,489
-	15,840	1,567	-	1,567	17,407
-	17,782	1,759	248	2,007	19,789
-	237	23	9	32	269
-	109,848	9,552	-	9,552	119,400
-	97,055	8,440	-	8,440	105,495
-	115	11	4	15	130
-	41,187	4,073	807	4,880	46,067
-	4,283	-	-	-	4,283
12	20,858	2,063	557	2,620	23,478
-	-	-	-	-	-
-	32,411	2,818	2,089	4,907	37,318
-	9,481	938	619	1,557	11,038
-	8,400	-	-	-	8,400
-	29,007	-	420	420	29,427
-	5,987	-	-	-	5,987
-	12,937	1,279	24,123	25,402	38,339
<u>2,504</u>	<u>2,755,664</u>	<u>178,719</u>	<u>81,780</u>	<u>260,499</u>	<u>3,016,163</u>
-	168,859	16,700	-	16,700	185,559
<u>\$ 2,504</u>	<u>\$ 2,924,523</u>	<u>\$ 195,419</u>	<u>\$ 81,780</u>	<u>\$ 277,199</u>	<u>\$ 3,201,722</u>



Senior Citizens Services, Inc. d/b/a Active Generations  
Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
<b>Operating Activities</b>		
Change in net assets	\$ (71,371)	\$ (113,628)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	190,710	185,559
Loss on sale of property and equipment	443	-
Realized gain on investments	(153)	(3,051)
Unrealized loss on investments	2,364	2,691
Net investment gain from Sioux Falls Area Community Foundation endowment	(7,157)	(7,387)
Change in assets and liabilities		
Grants receivable	6,467	(11,470)
Prepaid expenses	(19,734)	(2,713)
Accounts payable	30,757	(7,469)
Accrued liabilities	(18,932)	54,243
Deferred revenue	(100,088)	171,074
<b>Net Cash Provided by Operating Activities</b>	<b>13,306</b>	<b>267,849</b>
<b>Investing Activities</b>		
Purchases of property and equipment	(150,582)	(153,240)
Purchase of investments	(61,281)	(14,196)
Proceeds from sale of investments	7,377	27,631
Contributions to Sioux Falls Area Community Foundation endowment	(28,511)	-
Distributions from Sioux Falls Area Community Foundation endowment	61,380	41,844
<b>Net Cash Used for Investing Activities</b>	<b>(171,617)</b>	<b>(97,961)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(158,311)</b>	<b>169,888</b>
<b>Beginning Cash and Cash Equivalents</b>	<b>262,324</b>	<b>92,436</b>
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 104,013</b>	<b>\$ 262,324</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for interest	\$ -	\$ 130
<b>Supplemental Disclosures of Noncash Investing Activity</b>		
Accounts payable for property and equipment	\$ -	\$ 3,771

## **Note 1 - Nature of Organization and Significant Accounting Policies**

### **Nature of Organization**

Senior Citizens Services, Inc. d/b/a Active Generations (the Center) is a nonprofit corporation organized under the laws of the State of South Dakota for the charitable purpose to provide multi-service programs for older persons in the city of Sioux Falls, South Dakota and the surrounding areas.

### **Cash and Cash Equivalents**

The Center considers all cash on hand and in checking as cash and cash equivalents. Money market accounts and other investments with maturities of three months or less are considered as investments designated for building and equipment replacements.

### **Grants Receivable**

Grants receivable consist primarily of noninterest-bearing amounts due for federal and state programs. Management determines the allowance for uncollectable grants receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Management determined no allowance to be necessary based on these factors for the years ended June 30, 2016 and 2015. Grants receivable are written off when collection is no longer probable.

### **Contributions**

The Center's contributions are recognized as support when they are received or unconditionally pledged and are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and nature of any donor restrictions. Contributions required to be reported as temporarily restricted or permanently restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

### **Donated Services and In-Kind Support**

The Center may receive services and equipment without payment or compensation. Contributions of non-cash goods and services, such as advertising, are recorded at the estimated fair value on the date of the contribution. Contributions of services that (1) create or enhance non-financial assets or those that require specialized skills, (2) are provided by individuals possessing those skills, and (3) would typically need to be purchased if not provided by donation are recorded at their fair value in the period received. For the years ended June 30, 2016 and 2015 no donated services were recognized as revenue. Board members and other volunteers have contributed a significant amount of time to the activities of the Center without compensation. The financial statements do not reflect the value of those contributed services since they do not meet the criteria for recognition.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment income or (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

### **Property and Equipment**

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. When assets are donated without donor stipulations regarding how long these donated assets must be maintained, the organization reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Purchased property and equipment is stated at original cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Repairs and maintenance of property and equipment are charged to operations, and major improvements are capitalized.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets available for use in general operations.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Center and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Center's Board of Directors.

The Center reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Center. The restrictions stipulate that resources be maintained permanently but permit the Center to expend the income generated in accordance with the provisions of the agreements.

### **Fair Value Measurements**

The Center defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Center requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The Center also adopted a fair value hierarchy, which prioritizes inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

### **Advertising Costs**

Advertising costs are expensed as incurred.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Concentrations**

The Center receives a substantial amount of its support from federal, state, and local governments. A significant reduction in the level of this support, if it were to occur, may have a significant effect on the Center's programs and activities.

The Center maintains cash and cash equivalents balances in certain financial institutions. The accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC). At times the Center's balances may exceed the FDIC insurance limit.

### **Income Taxes**

The Center is organized as a nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). The Center is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Center files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

The Center believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Center would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Center's Forms 990-T and other income tax filings required by state, local, or non-U.S. tax authorities are no longer subject to tax examination for years before 2012.

### **Leased Facilities**

The Center leases facilities used in one of its programs under a lease that is renewable annually.

### **Deferred Revenue**

Deferred revenue results from collection received in advance of delivery of goods or performance of service primarily related to advance payments on cost reimbursement grants.



Senior Citizens Services, Inc. d/b/a Active Generations

Notes to Financial Statements

June 30, 2016 and 2015

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassification had no impact on total revenues, expenses, change in net assets or total net assets.

**Subsequent Events**

In determining required financial statement disclosures, the Center has evaluated subsequent events through December 9, 2016, the date which the financial statements were available to be issued.

**Note 2 - Investments - Designated for Property and Equipment Replacement**

The cost and market value of investment securities is as follows:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Market Value
Money market accounts	\$ 53,096	\$ -	\$ -	\$ 53,096
Fixed income mutual funds	108,452	540	-	108,992
Equity mutual funds	66,891	24,856	-	91,747
	<u>\$ 228,439</u>	<u>\$ 25,396</u>	<u>\$ -</u>	<u>\$ 253,835</u>
	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Market Value
Money market accounts	\$ 5,215	\$ -	\$ -	\$ 5,215
Fixed income mutual funds	104,552	-	(910)	103,642
Equity mutual funds	64,616	28,669	-	93,285
	<u>\$ 174,383</u>	<u>\$ 28,669</u>	<u>\$ (910)</u>	<u>\$ 202,142</u>

Senior Citizens Services, Inc. d/b/a Active Generations  
Notes to Financial Statements  
June 30, 2016 and 2015

The investment return consists of the following components:

	2016	2015
Interest earned and dividends received	\$ 5,101	\$ 4,435
Unrealized (depreciation) appreciation in fair value of marketable securities	(2,363)	(2,691)
Realized gain on investment transactions	153	3,051
Sioux Falls Area Community Foundation investment return	7,157	7,387
	\$ 10,048	\$ 12,182

**Note 3 - Fair Value of Assets and Liabilities**

The Center measures investment securities at fair value on a recurring basis. The related fair values of these assets are determined as follows:

	2016		
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market accounts	\$ 53,096	\$ -	\$ -
Fixed income mutual funds	108,992	-	-
Equity mutual funds	91,747	-	-
Interest in Sioux Falls Area Community Foundation	-	-	1,503,365
	\$ 253,835	\$ -	\$ 1,503,365
	2015		
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market accounts	\$ 5,215	\$ -	\$ -
Fixed income mutual funds	103,642	-	-
Equity mutual funds	93,285	-	-
Interest in Sioux Falls Area Community Foundation	-	-	1,529,077
	\$ 202,142	\$ -	\$ 1,529,077

The fair value of money market accounts, fixed income mutual funds and equity mutual funds are determined by reference to quoted market prices. The Center used Net Asset Value (NAV) or its equivalent to estimate the fair value of the Interest in Sioux Falls Area Community Foundation which does not have a readily determinable fair value. Investments valued at NAV are classified within Level 2 if the Center has the ability to redeem the investment at NAV per share, or its equivalent, at the measurement date or within the near term; otherwise, the investment is classified within Level 3. A reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016 is presented in Note 4.

#### Note 4 - Interest in Sioux Falls Area Community Foundation

Permanent transfers have been made from the Center to the endowment fund maintained by the Sioux Falls Area Community Foundation, Inc. (the Foundation). This endowment was established in 1996 and names the Center as the designated beneficiary of distributions from the endowment. The aggregate current market value of such transfers was \$1,503,365 and \$1,529,077 at June 30, 2016 and 2015, respectively, and is reflected in the Center's assets as interest in Sioux Falls Area Community Foundation. The Foundation distributes up to 5% of the 12-quarter trailing average balance of the endowment to the Center each year. These distributions are subject to the Foundation's power to "modify or remove any restriction or condition on the distribution of funds if, in its discretion, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the communities served." The Foundation has not exercised such power since its establishment in 1984.

In addition to the endowment fund noted above, the Foundation also holds additional investments for the Center with a fair market value of \$147,027 and \$152,432 as of June 30, 2016 and 2015, respectively. These funds are not recognized in the accompanying financial statements, in accordance with generally accepted accounting principles, as the related investments were initially donated, for the benefit of the Center, directly to the Foundation by the respective donors. These funds are also subject to the distribution policies as described above.

The Foundation endowment is established to hold investments in a pooled investment fund to yield more favorable investment returns. The investment and spending policies, as well as the rate of return strategies, of this endowment are determined by the Foundation. Net assets associated with the endowment funds are classified and reported as a separate category of unrestricted net assets as transfers to the endowment are irrevocable. The net asset composition of the endowment and changes in fund balance are as follows:

	2016	2015
Unrestricted net assets	\$ 1,503,365	\$ 1,529,077
Beginning endowment net assets	\$ 1,529,077	\$ 1,563,534
Contributions to the endowment	28,511	-
Investment return		
Investment income and net appreciation	7,157	7,387
Appropriation of endowment assets for expenditure	(61,380)	(41,844)
Ending endowment net assets	\$ 1,503,365	\$ 1,529,077

**Note 5 - Property and Equipment**

The cost and accumulated depreciation of property and equipment is as follows:

	Useful Life (Years)	2016		
		Cost	Accumulated Depreciation	Net
Land		\$ 432,523	\$ -	\$ 432,523
Buildings and improvements	3 - 30	4,094,762	(2,403,174)	1,691,588
Equipment	3 - 30	984,139	(789,113)	195,026
Construction in progress	N/A	21,040	-	21,040
		<u>\$ 5,532,464</u>	<u>\$ (3,192,287)</u>	<u>\$ 2,340,177</u>

	Useful Life (Years)	2015		
		Cost	Accumulated Depreciation	Net
Land		\$ 432,523	\$ -	\$ 432,523
Buildings and improvements	3 - 30	4,062,873	(2,246,785)	1,816,088
Equipment	3 - 30	935,236	(799,328)	135,908
		<u>\$ 5,430,632</u>	<u>\$ (3,046,113)</u>	<u>\$ 2,384,519</u>

Community Development Block Grants received by the Center were used to purchase the land and building for the Center at 2300 W. 46th in Sioux Falls, South Dakota. These grants were in the form of zero percent notes payable with mortgages placed on the property. The total amount of the grants accumulated through June 30, 2016 and 2015 was \$514,657. The notes payable are due upon noncompliance with the intended purpose of the funds, as defined in the agreement, or upon sale of the property. Since the probability of repaying the notes payable is considered remote, the grants have been recognized as support in the year received and a corresponding permanently restricted net asset was recorded.

**Note 6 - Line of Credit**

The Center has available a \$250,000 line of credit that bears interest at a variable rate equal to the Wall Street Prime Rate plus 0.75%, but not to be less than 4.50% per annum. The line is secured by all assets and expires on March 31, 2017. There were no advances outstanding on the line of credit at June 30, 2016 and 2015.



Senior Citizens Services, Inc. d/b/a Active Generations

Notes to Financial Statements

June 30, 2016 and 2015

**Note 7 - Net Assets**

Net assets consist of the following:

	2016	2015
Unrestricted net assets		
Designated by the board for the purpose of equipment replacement	\$ 253,835	\$ 202,142
Sioux Falls Area Community Foundation (Note 4)	1,503,365	1,529,077
Undesignated	1,699,810	1,856,144
	3,457,010	3,587,363
Temporarily restricted net assets		
Restricted for nutrition equipment purchase	58,982	-
Permanently restricted net assets		
Restricted for land and building (Note 5)	514,657	514,657
	\$ 4,030,649	\$ 4,102,020

**Note 8 - Retirement Plan**

The Center has a defined contribution retirement plan covering employees that have attained age 21 and performed 1,000 hours of service for the Center. The amount of the Center's annual contribution is at the discretion of the Board of Directors. Plan contributions were \$45,524 and \$40,415 for the years ended June 30, 2016 and 2015, respectively.

**Note 9 - Related Parties**

The Center is the general partner in a partnership that holds an apartment building that provides low-income housing to seniors. The partnership was not consolidated as the limited partner has substantive participating rights including rights related to selecting, terminating, and setting the compensation of management responsible for implementing the limited partnership's policies and procedures. This investment is thus accounted for using the equity method of accounting. The capital account of the partnership was negative as of June 30, 2016 and 2015; therefore, no asset was reported on the Center's statements of financial position related to this investment. The Center received distributions of \$14,500 from the partnership during each of the years ended June 30, 2016 and 2015.



Supplementary Information  
June 30, 2016 and 2015

**Senior Citizens Services, Inc.  
d/b/a Active Generations**

Senior Citizens Services, Inc. d/b/a Active Generations  
Schedule of Expenditures of Federal Awards  
Year Ending June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>U.S. Department of Health and Human Services</u>				
Passed through South Dakota Department of Social Services Special Programs for the Aging Title III, Part B - Grants for Supportive Services and Senior Centers				
Adult Day Care	93.044	17SC084608 / 16SC084608	\$ 193,687	\$ -
Transportation	93.044	16SC084613 / 15SC084615	991	-
			<u>194,678</u>	<u>-</u>
Special Programs for the Aging Title III, Part C - Nutrition Services				
Congregate Meals	93.045	17SC048617 / 16SC084617	262,808	-
Home-Delivered Meals	93.045	17SC048617 / 16SC084617	220,175	-
			<u>482,983</u>	<u>-</u>
Nutrition Services Incentive Program	93.053	17SC048617 / 16SC084617	145,920	-
Total Aging Cluster			<u>823,581</u>	<u>-</u>
National Caregiver Support, Title III, Part E	93.052	17SC084608 / 16SC084608	36,182	-
State Health Insurance Assistance Program	93.324	17SC084602 / 16SC0846602	106,971	-
Medicare Enrollment Assistance Program	93.071	17SC084602 / 16SC0846602	28,833	-
Special Programs for the Aging Title IIV and Title II Discretionary Projects	93.048	17SC084602 / 16SC0846602	62,190	-
Total Expenditures of Federal Awards			<u>\$ 1,057,757</u>	<u>\$ -</u>

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Senior Citizens Services, Inc. d/b/a Active Generations. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Senior Citizens Services, Inc. d/b/a Active Generations received federal awards indirectly through pass-through entities.

**Note B – Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations or Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Center’s summary of significant accounting policies is presented in Note 1 in the Center’s basic financial statements.

The Center has not elected to use the 10% de minimis cost rate.

**Note C – Cluster of Programs**

The Aging Cluster includes the following three programs: 93.044 Adult Day Care and Transportation, 93.045 Congregate and Home-Delivered Meals, and 93.053 Nutrition Services Incentive Program. The amount of expenditures for the Aging Cluster is \$823,581.

### **Financial Statement Findings**

**Finding 2015-A            Preparation of Financial Statements and Material Adjustment  
Material Weakness**

*Initial Fiscal Year Finding Occurred: 2010*

*Finding Summary:* The Center does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements, the schedule of expenditures of federal awards and accompanying notes to the financial statements. In addition, we proposed an audit entry to adjust net assets to actual. It is the responsibility of management and those charged with governance to make the decision to accept the degree of risk associated with this condition because of cost or other considerations.

*Status:* Management and the Board of Directors will continue to review for propriety the draft of the financial statements, footnotes and schedule of expenditures of federal awards prepared by the auditor. Due to the Center's limited staffing, they will accept the risk associated with this condition based on costs and other considerations as the cost of any further controls would outweigh the related benefits.

### **Federal Award Findings**

**Finding 2015-001            U.S. Department of Health and Human Services, South Dakota Department of  
Social Services  
CFDA 93.045 – 15SC084619 and 16SC084617, 6/1/2014 – 5/31/2015 and 6/1/2015 –  
5/31/2016; Special Programs for the Aging Title III, Part C Nutrition Services,  
CFDA 93.053 – 15SC084619 and 16SC084617, 6/1/2014 – 5/31/2015 and 6/1/2015 –  
5/31/2016; Nutrition Services Incentive Program**

**Cash Management  
Material Weakness in Internal Control over Compliance and Compliance**

*Initial Fiscal Year Finding Occurred: 2015*

*Finding Summary:* Subsequent to year end, it was discovered that the source documents for the Sioux Falls home delivery meals (69,462 meals out of a total 210,988 meals) had been inadvertently destroyed.

*Status:* Corrective action was taken.

**Finding 2015-002**      **U.S. Department of Health and Human Services, South Dakota Department of Social Services**  
CFDA 93.044 – 15SC084608 and 16SC084608, 6/1/2014 – 5/31/2015 and 6/1/2015 – 5/31/2016 and 14SC084615 and 15SC084615, 9/30/2013 – 9/29/2014 and 9/30/2014 – 9/29/2015; Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers  
CFDA 93.045 – 15SC084619 and 16SC084617, 6/1/2014 – 5/31/2015 and 6/1/2015 – 5/31/2016; Special Programs for the Aging Title III, Part C Nutrition Services,  
CFDA 93.053 – 15SC084619 and 16SC084617, 6/1/2014 – 5/31/2015 and 6/1/2015 – 5/31/2016; Nutrition Services Incentive Program

**Cash Management**  
**Material Weakness in Internal Control over Compliance**

*Initial Fiscal Year Finding Occurred: 2014*

*Finding Summary:* In four months selected for nutrition testing, in thirty out of eighty-four sites (twenty-one sites times four months) the number of meals served that were submitted for reimbursement did not agree to the underlying detailed supporting documentation. In items selected for testing the daycare program, the units served that were submitted for reimbursement did not agree to the underlying detailed supporting documentation in six out of sixty tested.

*Status:* Management has established policies and procedures for nutrition meal counts as well as documentation of all discrepancies and activities. However, there were instances in which the number of meals served that were submitted for reimbursement did not agree to the underlying detailed supporting documentation for the current year. Management will review the policies and procedures established for nutrition meal counts with the appropriate individuals. See Finding 2016-001.

**Finding 2015-003**      **U.S. Department of Health and Human Services, South Dakota Department of Social Services**  
CFDA 93.044 – 15SC084608 and 16SC084608, 6/1/2014 – 5/31/2015 and 6/1/2015 – 5/31/2016 and 14SC084615 and 15SC084615, 9/30/2013 – 9/29/2014 and 9/30/2014 – 9/29/2015; Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers  
CFDA 93.045 – 15SC084619 and 16SC084617, 6/1/2014 – 5/31/2015 and 6/1/2015 – 5/31/2016; Special Programs for the Aging Title III, Part C Nutrition Services,  
CFDA 93.053 – 15SC084619 and 16SC084617, 6/1/2014 – 5/31/2015 and 6/1/2015 – 5/31/2016; Nutrition Services Incentive Program

**Program Income and Matching**  
**Material Weakness in Internal Control over Compliance**

*Initial Fiscal Year Finding Occurred: 2015*

*Finding Summary:* Program income for one participant for one month was recorded to the wrong cost center (CFDA 93.044). Program income was not reconciled to the underlying documentation for one site for one month (CFDA 93.045 and 93.053).

*Status:* Management has established policies and procedures for billing and counting hours / units for DayBreak. However, there was one instance in which program income for one month reported to the state was overstated and program income was not reconciled to the underlying documentation. See Finding 2016-002.

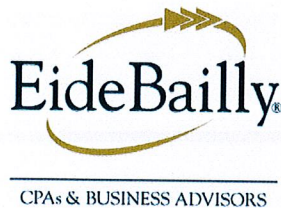
**Finding 2015-004**      **U.S. Department of Health and Human Services, South Dakota Department of Social Services**  
**CFDA 93.053 – 15SC084619 and 16SC084617, 6/1/2014 – 5/31/2015 and 6/1/2015 – 5/31/2016; Nutrition Services Incentive Program**

**Cash Management, Matching, Program Income and Reporting**  
**Significant Deficiency in Internal Control over Compliance**

*Initial Fiscal Year Finding Occurred:* 2015

*Finding Summary:* The Center does not have formally documented internal controls over compliance with federal programs to meet the requirements.

*Status:* Corrective action was taken.



**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 Directors  
Senior Citizens Services, Inc. d/b/a Active Generations  
Sioux Falls, 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, the financial statements of Senior Citizens Services, Inc. d/b/a Active Generations (the Center), which comprise the statement of financial position as of June 30, 2016, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the 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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2016-A to be a material weakness.

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.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center'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 determination of financial statement amounts. 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 Center's Response to Finding**

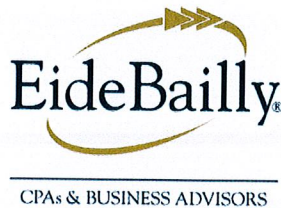
The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sioux Falls, South Dakota  
December 9, 2016



**Independent Auditor's Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance Required by Uniform Guidance**

The Board of Directors  
Senior Citizens Services, Inc. d/b/a Active Generations  
Sioux Falls, South Dakota

**Report on Compliance for Each Major Federal Program**

We have audited Senior Citizens Services, Inc. d/b/a Active Generations' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2016. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## **Report on Internal Control over Compliance**

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

Our consideration of internal control over compliance 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 and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2016-001 and 2016-002 that we consider to be significant deficiencies.

The Center's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Center's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Sioux Falls, South Dakota  
December 9, 2016

Senior Citizens Services, Inc. d/b/a Active Generations  
 Schedule of Findings and Questioned Costs  
 Year Ending June 30, 2016

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Aging Cluster	
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044
Special Programs for the Aging Title III, Part C Nutrition Services	93.045
Nutrition Services Incentive Program	93.053
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

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**Section II – Financial Statement Findings**

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**Finding 2016-A      Preparation of Financial Statements and Material Adjustment  
Material Weakness**

*Criteria:* Proper controls over financial reporting include the ability to prepare financial statements, accompanying notes to the financial statements and the schedule of federal awards that are correct.

*Condition:* The Center does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements, the schedule of expenditures of federal awards and accompanying notes to the financial statements. In addition, we proposed material audit entries relating to deferred revenue, temporarily restricted net assets, and the interest in the Sioux Falls Community Foundation. It is the responsibility of management and those charged with governance to make the decision to accept the degree of risk associated with this condition because of cost or other considerations.

*Cause:* The Center has limited staff.

*Effect:* Inadequate controls over financial reporting of the Center result in the more than remote likelihood that the Center would not be able to draft the financial statements, accompanying notes to the financial statements and schedule of expenditures of federal awards that are correct without assistance.

*Recommendations:* While we recognize that this condition is not unusual for an organization with limited staffing, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the Center and changes in reporting requirements.

*View of Responsible Officials:* Management and the Board of Directors is in agreement.

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**Section III – Federal Award Findings and Questioned Costs**

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**Finding 2016-001**      **U.S. Department of Health and Human Services, South Dakota Department of Social Services**  
**CFDA 93.044 – 16SC084608 and 17SC084608, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017 and 15SC084615 and 16SC084613, 9/30/2014 – 9/29/2015 and 9/30/2015 – 9/29/2016; Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers**  
**CFDA 93.045 – 16SC084617 and 17SC084617, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017; Special Programs for the Aging Title III, Part C Nutrition Services, CFDA 93.053 – 16SC084617 and 17SC084617, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017; Nutrition Services Incentive Program**

**Cash Management**  
**Significant Deficiency in Internal Control over Compliance**

*Criteria:* 2 CFR 200.303(a) establishes that the auditee shall maintain internal control over Federal programs that provides assurance that the auditee is managing Federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

*Condition:* In four months selected for nutrition testing, in seven out of eighty-four sites (twenty-one sites times four months) the number of meals served that were submitted for reimbursement did not agree to the underlying detailed supporting documentation (CFDA 93.045 and 93.053). In items selected for testing for the daycare program, the units served that were submitted for reimbursement, did not agree to the underlying detailed supporting documentation in one out of sixty tested (CFDA 93.044).

*Cause:* The reconciliation between the amounts submitted for reimbursement and the detailed records did not agree in some cases for all sites due to clerical errors.

*Effect:* The Center may have difficulty in demonstrating that they were reimbursed the correct amount without adequate support for amounts submitted for reimbursement.

*Questioned Costs:* Questioned costs were \$245 for CFDA 93.045 and 93.053 and \$3 for CFDA 93.044.

*Context:* A nonstatistical sample of 4 months' worth of meals were tested on CFDA 93.045 and 93.053, which accounted for 67,101 meals out of 201,734 total meals. A nonstatistical sample of 60 units included within 4 months' worth of Title III, Part B expenditures were tested on CFDA 93.044 which accounted for 1,295 units out of 169,566 total units.

*Repeat Finding from Prior Years:* Yes, prior year finding 2015-002.

*Recommendation:* We recommend management to review the designed and implemented procedures to perform a monthly reconciliation between amounts submitted and the detailed records. We suggest that management retain all documentation to support the reconciliation process.

*View of Responsible Officials:* Management is in agreement.

**Finding 2016-002**      **U.S. Department of Health and Human Services, South Dakota Department of Social Services**  
**CFDA 93.044 – 16SC084608 and 17SC084608, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017 and 15SC084615 and 16SC084613, 9/30/2014 – 9/29/2015 and 9/30/2015 – 9/29/2016; Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers**  
**CFDA 93.045 – 16SC084617 and 17SC084617, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017; Special Programs for the Aging Title III, Part C Nutrition Services, CFDA 93.053 – 16SC084617 and 17SC084617, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017; Nutrition Services Incentive Program**

**Program Income and Matching**  
**Significant Deficiency in Internal Control over Compliance**

*Criteria:* 2 CFR 200.307 requires program income earned during the program period to be retained by the recipient and, in accordance with Federal awarding agency regulations, be added to funds committed to the program by the Federal awarding agency and recipient and used to further eligible program objectives or used to finance the non-Federal share of the program.

*Condition:* Program income for one of the four months tested which were submitted for reporting did not agree to the underlying detailed supporting documentation (CFDA 93.044). Program income was not reconciled to the underlying documentation for three of the five sites tested for the whole year and one site was not depositing income received within a timely manner to the bank (CFDA 93.045 and 93.053).

*Cause:* The Center's internal controls did not identify the errors.

*Effect:* Program income for the Daybreak program was overstated by \$25 (CFDA 93.044). Inadequate documentation of controls over this area of compliance could result in a reasonable possibility that the Center would not be able to detect and correct noncompliance in a timely manner.

*Questioned Costs:* None reported. The overstatement of program income did not impact the amount reimbursed.

*Context:* A nonstatistical sample of four months of the twelve months were selected for testing for the Daybreak program. A nonstatistical sample of five sites out of twenty-one sites for the year were selected for testing for the Nutrition program.

*Repeat Finding from Prior Years:* Yes, prior year finding 2015-003.

*Recommendation:* We recommend management review the procedures over program income and matching to ensure that all amounts reported are properly reconciled to the underlying documentation and reported properly within any monthly reports.

*View of Responsible officials:* Management is in agreement.

Cognizant or Oversight Agency for Audit      Department of Health and Human Services

Senior Citizens Services, Inc. d/b/a Active Generations respectfully submits the following corrective action plan for the year ended June 30, 2016.

Name and address of independent public accounting firm:      Eide Bailly LLP  
200 East 10th Street, Suite 500  
PO Box 5125  
Sioux Falls, SD 57117-5125

Audit Period: July 1, 2015 to June 30, 2016

The findings from the 2016 schedule of findings and questioned costs are discussed below.

**Findings – Financial Statement**

**Finding 2016-A      Preparation of Financial Statements and Material Adjustments  
Material Weakness**

The Center does not have an internal control system designed to provide the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements, the schedule of expenditures of federal awards and accompanying notes to the financial statements. In addition, we proposed material audit entries relating to deferred revenue, temporarily restricted net assets, and the interest in the Sioux Falls Community Foundation. It is the responsibility of management and those charged with governance to make the decision to accept the degree of risk associated with this condition because of cost or other conditions.

Responsible Individuals:      Gerald Beninga and Board of Directors

Corrective Action Plan:      Management and the Board of Directors will continue to be aware of the financial reporting of the Center and changes in reporting requirements; however, they have also accepted the risk associated with this condition based on cost and other considerations as the cost of further controls would outweigh the related benefits.

Anticipated Completion Date:      December 9, 2016



**Findings – Federal Awards**

**Finding 2016-001**      **U.S. Department of Health and Human Services, South Dakota Department of Social Services**  
**CFDA 93.044 – 16SC084608 and 17SC084608, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017 and 15SC084615 and 16SC084613, 9/30/2014 – 9/29/2015 and 9/30/2015 – 9/29/2016; Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers**  
**CFDA 93.045 – 16SC084617 and 17SC084617, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017; Special Programs for the Aging Title III, Part C Nutrition Services, CFDA 93.053 – 16SC084617 and 17SC084617, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017; Nutrition Services Incentive Program**

**Cash Management**  
**Significant Deficiency in Internal Control over Compliance**

In four months selected for nutrition testing, in seven out of eighty-four sites (twenty-one sites times four months) the number of meals served that were submitted for reimbursement did not agree to the underlying detailed supporting documentation (CFDA 93.045 and 93.053). In items selected for testing for the daycare program, the units served that were submitted for reimbursement did not agree to the underlying detailed supporting documentation in one out of sixty tested (CFDA 93.044).

Responsible Individuals:      Gerald Beninga and the Board of Directors

Corrective Action Plan:      Management will review the designed and implemented procedures to perform a monthly reconciliation between amounts submitted and the detailed records. Management will also retain all documentation to support the reconciliation process.

Anticipated Completion Date:      January 1, 2017

**Finding 2016-002**      **U.S. Department of Health and Human Services, South Dakota Department of Social Services**  
**CFDA 93.044 – 16SC084608 and 17SC084608, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017 and 15SC084615 and 16SC084613, 9/30/2014 – 9/29/2015 and 9/30/2015 – 9/29/2016; Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers**  
**CFDA 93.045 – 16SC084617 and 17SC084617, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017; Special Programs for the Aging Title III, Part C Nutrition Services, CFDA 93.053 – 16SC084617 and 17SC084617, 6/1/2015 – 5/31/2016 and 6/1/2016 – 5/31/2017 Nutrition Services Incentive Program**

**Program Income and Matching**  
**Significant Deficiency in Internal Control over Compliance**

Program income for one of the four months tested which were submitted for reporting did not agree to the underlying detailed supporting documentation (CFDA 93.044). Program income was not reconciled to the underlying documentation for three of the five sites tested for the whole year and one site was not depositing income received within a timely manner to the bank (CFDA 93.045 and 93.053).

Responsible Individuals:      Gerald Beninga and the Board of Directors

Corrective Action Planned:      Management will review the procedures over program income and matching to ensure that all amounts reported are properly reconciled to the underlying documentation and reported properly within the monthly reports.

Anticipated Completion Date:      January 1, 2017



427 SOUTH CHAPELLE  
C/O 500 EAST CAPITOL  
PIERRE SD 57501-5070  
(605) 773-3595

MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

Date: November 17, 2016

To: SD Department of Public Safety  
SD State Board of Internal Control

Re: Audit Report on – Butte Electric Cooperative, Inc.  
As of and for the year ended July 31, 2016  
By: Ketel Thorstenson, LLP, CPAs

We have accepted the final report on the audit of the above-named entity conducted under the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does identify audit findings pertaining to federal award programs administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See page 7. Accordingly, you are required to issue a management decision on the audit findings within six months after receipt of this audit report (OMB Uniform Guidance §200.331(d)(3)).

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA  
Auditor General

MLG:sld

Enclosure





**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
JULY 31, 2016 AND 2015



**Ketel Thorstenson, LLP**

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street • Rapid City, SD 57701 • [www.ktllp.com](http://www.ktllp.com)

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**TABLE OF CONTENTS**

	<u>PAGE</u>
Independent Auditor’s Report .....	1-2
<i>Financial Statements:</i>	
Balance Sheets .....	3
Statements of Operations and Patronage Capital.....	4
Statements of Cash Flows .....	5
Notes to Financial Statements.....	6-14
<i>Supplemental Information:</i>	
Schedule of Long-Term Debt .....	15-16
Comparative Statements of Operations .....	17
<i>Other Reports and Information:</i>	
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 <i>Governmental Auditing Standards</i> .....	18-19
Schedule of Audit Findings .....	20
Status of Prior Year Findings.....	20
Independent Auditor’s Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers .....	21-22
Directors and Officers .....	23





**Ketel Thorstenson, LLP**  
Certified Public Accountants/Business & Personal Consultants

810 Quincy Street  
P.O. Box 3140, Rapid City, South Dakota 57709  
Telephone (605) 342-5630 • e-mail: [ktllp@ktllp.com](mailto:ktllp@ktllp.com)

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Butte Electric Cooperative, Inc.  
Newell, South Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of **BUTTE ELECTRIC COOPERATIVE, INC.** (the Cooperative), which comprise the balance sheets as of July 31, 2016 and 2015, and the related statements of operations and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

***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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 **BUTTE ELECTRIC COOPERATIVE, INC.** as of July 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Long-Term Debt and Comparative Statements of Operations on pages 15-17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Cooperative as of and for the years ending July 31, 2012-2014 (none of which is presented herein), and we expressed unmodified opinions on those financial statements. Those audits were conducted for purposes of forming an opinion on the financial statements as a whole. The Comparative Statements of Operations related to the 2012-2014 financial statements is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012-2014 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Comparative Statements of Operations related to the 2012-2014 financial statements is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016 on our consideration of the Cooperative'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 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 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 Cooperative's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP  
Certified Public Accountants

October 17, 2016

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**BALANCE SHEETS  
JULY 31, 2016 AND 2015**

<b>ASSETS (Note 9)</b>	<b>2016</b>	<b>2015</b>
<b>Electric Plant (Notes 2 and 11)</b>		
In-Service	\$ 60,381,705	\$ 55,154,085
Construction Work in Progress	1,576,485	3,072,014
<b>Total Electric Plant</b>	<b>61,958,190</b>	<b>58,226,099</b>
Less Accumulated Provision for Depreciation	20,144,622	19,186,323
<b>Net Electric Plant</b>	<b>41,813,568</b>	<b>39,039,776</b>
<b>Other Investments</b>		
Investments in Associated Organizations (Note 3)	4,633,768	4,383,609
Other Investments (Notes 4 and 10)	810,901	608,084
<b>Total Other Investments</b>	<b>5,444,669</b>	<b>4,991,693</b>
<b>Current Assets</b>		
Cash and Cash Equivalents (Note 5)	1,991,746	3,864,925
Accounts Receivable (Net of Accumulated Provision for Uncollectible Accounts of \$123,301 and \$137,701 for 2016 and 2015, respectively)	1,436,252	1,270,019
Materials and Supplies	1,826,727	1,345,860
Prepayments	192,457	168,659
Interest Receivable	9,771	8,126
<b>Total Current Assets</b>	<b>5,456,953</b>	<b>6,657,589</b>
<b>Other Assets</b>		
Deferred Charges (Notes 6 and 12)	629,431	800,262
Other Accounts Receivable (Note 14)	1,755,596	703,237
<b>Total Other Assets</b>	<b>2,385,027</b>	<b>1,503,499</b>
<b>TOTAL ASSETS</b>	<b>\$ 55,100,217</b>	<b>\$ 52,192,557</b>

The accompanying notes are an integral part of these statements.



<b>EQUITIES AND LIABILITIES</b>	<b>2016</b>	<b>2015</b>
<b>Equities</b>		
Patronage Capital (Note 7)	\$ 15,442,088	\$ 14,266,457
Other Equities (Note 8)	309,781	274,060
<b>Total Equities</b>	<b>15,751,869</b>	<b>14,540,517</b>
<b>Long-Term Debt, Net of Current Portion (Note 9)</b>	<b>35,169,934</b>	<b>34,122,487</b>
<b>Current Liabilities</b>		
Current Portion of Long-Term Debt (Note 9)	1,501,888	1,199,378
Accounts Payable -- Trade	455,498	291,701
Accounts Payable -- Power Bill	657,349	508,786
Customers' Deposits	193,295	178,335
Taxes -- Accrued and Withheld	242,896	223,631
Other Current Liabilities	126,003	148,671
<b>Total Current Liabilities</b>	<b>3,176,929</b>	<b>2,550,502</b>
<b>Deferred Credits (Note 10)</b>	<b>1,001,485</b>	<b>979,051</b>
<b>Commitments and Contingencies (Notes 2, 11, 12 and 14)</b>		
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b>\$ 55,100,217</b>	<b>\$ 52,192,557</b>

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL  
FOR THE YEARS ENDED JULY 31, 2016 AND 2015**

	2016	2015
<b>Operating Revenue (Note 10)</b>	<b>\$ 13,482,497</b>	<b>\$ 12,659,103</b>
<b>Operating Expenses</b>		
Cost of Power (Notes 10 and 11)	6,147,115	5,930,685
Depreciation	1,582,176	1,497,462
Distribution -- Operations	978,439	878,481
Administrative and General	928,495	845,134
Distribution -- Maintenance	553,109	411,397
Transmission	298,167	300,106
Customer Accounts	287,528	313,652
Customer Service and Informational	226,782	149,876
Other	13,393	13,223
<b>Total Operating Expenses</b>	<b>11,015,204</b>	<b>10,340,016</b>
<b>Operating Margin Before Fixed Charges</b>	<b>2,467,293</b>	<b>2,319,087</b>
<b>Fixed Charges</b>		
Interest on Long-Term Debt	1,399,810	1,404,759
<b>Operating Margin After Fixed Charges</b>	<b>1,067,483</b>	<b>914,328</b>
<b>Generation and Transmission and Other Cooperative Capital Credits</b>	<b>286,666</b>	<b>334,691</b>
<b>Net Operating Margin</b>	<b>1,354,149</b>	<b>1,249,019</b>
<b>Non-operating Margin</b>		
Investment Income	114,138	99,806
Loss on Sale of Property	(110,024)	-
Merchandising (Net of Costs and Expenses of \$58,397 for 2016 and \$57,503 for 2015)	5,484	6,014
Miscellaneous Income	-	1,301
<b>Net Non-operating Margin</b>	<b>9,598</b>	<b>107,121</b>
<b>Net Margin</b>	<b>1,363,747</b>	<b>1,356,140</b>
<b>Patronage Capital -- Beginning of Year</b>	<b>14,266,457</b>	<b>13,252,056</b>
<b>Retirement of Patronage Capital Credits (Note 7)</b>	<b>(188,116)</b>	<b>(341,739)</b>
<b>Patronage Capital -- End of Year</b>	<b>\$ 15,442,088</b>	<b>\$ 14,266,457</b>

The accompanying notes are an integral part of these statements.

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JULY 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities</b>		
Net Margin	\$ 1,363,747	\$ 1,356,140
<i>Adjustments to Reconcile Net Margin to Net Cash Flows Provided by Operating Activities:</i>		
Depreciation	1,728,106	1,632,047
Deferred Charges -- RS Prepayment Amortized	89,818	89,818
Generation and Transmission and Other Capital Credits	(286,666)	(334,691)
Loss on Disposition of Assets	110,024	-
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Accounts Receivable	(166,233)	(13,055)
Prepayments	(23,798)	(1,768)
Interest Receivable	(1,645)	1,868
Accounts Payable -- Trade and Power Bill	312,360	60,797
Customers' Deposits	14,960	10,250
Taxes -- Accrued and Withheld	19,265	(819)
Other Current Liabilities	(22,668)	30,918
Deferred Credits	98,016	(23,884)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>3,235,286</b>	<b>2,807,621</b>
<b>Cash Flows From Investing Activities</b>		
Net Electric Plant Additions and Replacements	(6,077,433)	(4,686,854)
Aid to Construction	337,570	278,534
Change in Other Investments	(166,310)	467,161
Change in Materials and Supplies	(480,867)	(244,982)
Change in Deferred Charges	81,013	(38,636)
<b>Net Cash Flows Used in Investing Activities</b>	<b>(6,306,027)</b>	<b>(4,224,777)</b>
<b>Cash Flows From Financing Activities</b>		
Loan Fund Advances FFB	2,750,000	3,000,000
Change in RUS Advance Payments	(85,831)	(319,437)
Principal Payments on Long-Term Debt	(1,314,212)	(1,144,243)
Patronage Capital Retirements	(188,116)	(341,739)
Increase in Other Equities	35,721	25,202
<b>Net Cash Flows Provided by Financing Activities</b>	<b>1,197,562</b>	<b>1,219,783</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(1,873,179)</b>	<b>(197,373)</b>
<b>Cash and Cash Equivalents -- Beginning of Year</b>	<b>3,864,925</b>	<b>4,062,298</b>
<b>Cash and Cash Equivalents -- End of Year</b>	<b>\$ 1,991,746</b>	<b>\$ 3,864,925</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash Paid During the Year For Interest	\$ 1,399,810	\$ 1,404,759
<b>Supplemental Disclosures of Noncash Financing Activities</b>		
Construction Work in Progress to be Reimbursed by FEMA and State as Aid to Construction	\$ 1,052,359	\$ 292,911
Aid to Construction Forfeited	75,582	-
CFC Loan Fund Advances Used for Principal Payments of RUS Debt	10,188,522	-

The accompanying notes are an integral part of these statements.

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2016 AND 2015**

**(1) Nature of Operations and Summary of Significant Accounting Policies**

**Operations**

Butte Electric Cooperative, Inc. (the Cooperative) is a distribution cooperative corporation serving portions of western South Dakota. The Cooperative maintains its accounts and prepares its financial statements in accordance with the -Uniform System of Accounts prescribed by the Rural Utilities Service (RUS).

Rates charged to customers are established by the Board of Directors and are submitted to RUS for review.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

**Electric Plant and Retirements**

Electric plant is stated at cost. The cost of additions to electric plant includes contracted work, direct labor and materials, and allocable overheads. When units of property are retired, sold, or otherwise disposed of in the ordinary course of business, their average book cost less net salvage value is charged to accumulated depreciation. Repairs, replacement, and renewal of items determined to be less than units of property are charged to maintenance expense.

**Depreciation**

Depreciation is computed using the straight-line method based on the estimated useful lives of the various classes of property (Note 2).

**Investments in Associated Organizations and Other Investments**

Investments in associated organizations are recorded at cost plus undistributed allocated equities in other cooperatives. Other investments of the Cooperative are also recorded at cost. The timing and amount of equity allocations and any retirement is at the sole discretion of the other cooperatives.

**Materials and Supplies**

Inventories are stated at the lower of cost or market. Cost is determined using the moving, weighted-average cost method.

**Patronage Capital**

The Cooperative operates on a nonprofit basis. Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to patrons on a patronage basis. All other amounts received by the Cooperative from its operations in excess of costs and expenses are also allocated to patrons on a patronage basis, to the extent they are not needed to offset current or prior losses.

**Revenue Recognition**

Revenue is reflected in the accounts only at the time such revenue is actually billed to customers, which is consistent with policies permitted by RUS. Accordingly, the revenues related to energy delivered, but not billed (usually less than one month), are not accrued. The amount of estimated revenue not accrued was approximately \$290,000, \$297,000 and \$261,000 at July 31, 2016, 2015, and 2014, respectively.

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JULY 31, 2016 AND 2015**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Power Costs**

The monthly billings from the wholesale power suppliers reflects usage through the end of the accounting period.

**Pension Costs**

The policy is to fund pension costs accrued. The Cooperative made a prepayment in 2013 (Note 12).

**Income Taxes**

The Cooperative is exempt from federal income tax under Section 501(c)(12) of the Internal Revenue Code. The Cooperative has met the requirement that more than 85 percent of its revenue be from its members. The State of South Dakota does not have an income tax law. At July 31, 2016, the Cooperative believes no significant uncertain tax positions or liabilities exist.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, the Cooperative considers all unrestricted commercial paper, money market funds, and certificates of deposit with an original maturity of three months or less to be cash equivalents. The Cooperative maintains its checking accounts in several financial institutions that are each insured by the Federal Deposit Insurance Corporation up to \$250,000. The Cooperative's cash balance exceeds the insured limit from time to time; however, management feels that the risk of exposure to loss is minimal.

**Generation and Transmission Capital Credits**

Capital credits from associated cooperatives are recognized as revenue only when the notice of the allocation of patronage capital is received, which is generally done on a calendar-year basis.

**Accounts Receivable**

Accounts receivable are recorded at the time the revenue is billed each month. Any receivables not paid within 14 days of the invoice due date are considered past due, and interest charges begin accruing at a rate of 1.5 percent per month. As of July 31, 2016 and 2015, receivables totaling **\$114,940** and **\$89,171**, respectively, were considered past due. Management has estimated an allowance for doubtful accounts based on their knowledge of current environmental conditions and historical losses; however, it is at least reasonably possible that this estimate will be revised significantly in the near term. Receivables will be charged off as uncollectible when management feels they have exhausted all reasonable collection efforts.

**Subsequent Events**

The Cooperative has evaluated subsequent events through October 17, 2016, the date which the financial statements were available to be issued.

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JULY 31, 2016 AND 2015**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Concluded)**

**Emerging Accounting Standard**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The ASU outlines five steps to achieve proper revenue recognition: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies the performance obligation. This standard is effective for annual reporting periods beginning after December 15, 2018. The Cooperative will be evaluating the impact implementation will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC Topic 840, *Leases and* provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessors to classify leases as sales-type, direct financing, or operating leases based on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. A lessor is precluded from recognizing income at lease commencement if control is not transferred. In addition, no differentiation exists between leases of real estate and leases of other assets. The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Cooperative will be evaluating the impact implementation will have on the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on eight specific cash flow issues: 1) debt prepayment or extinguishment costs, 2) settlement of zero-coupon debt instruments, 3) contingent consideration payments made after a business combination, 4) proceeds from settlement of insurance claims, 5) proceeds from settlement of corporate-owned life insurance policies, 6) distributions received from equity method investees, 7) beneficial interests in securities transactions, and 8) separately identifiable cash flows and application of the predominance principle. The standard is effective for fiscal years beginning after December 15, 2018. The Cooperative will be evaluating the impact implementation will have on the financial statements.

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new standard revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The standard requires equity investments (excluding those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income. An entity may elect to measure at cost equity investments for which fair value is not readily determinable, minus impairment, if any, plus or minus the change as a result of an observable price change. This standard simplifies the impairment assessment of equity investments for which fair value is not readily determinable by requiring an entity to perform a qualitative assessment to identify impairment. If qualitative indicators are identified, the entity will be required to measure the investment at fair value. This standard is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Cooperative will be evaluating the impact implementation will have on the financial statements.

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JULY 31, 2016 AND 2015**

**(2) Electric Plant**

Listed below are the major classes of electric plant in service and the applicable depreciation rates as of July 31:

	<u>2016</u>	<u>DEPRECIATION RATES</u>	<u>2015</u>	<u>DEPRECIATION RATES</u>
Transmission Plant	\$ 6,717,757	2.80%-4.00%	\$ 5,717,757	2.80%-4.00%
Distribution Plant	47,615,303	2.30% - 4.40%	45,588,451	2.30% - 4.40%
General Plant	6,048,645	2.00% - 17.00%	3,847,877	2.00% - 17.00%
	<u>60,381,705</u>		55,154,085	
Construction Work in Progress *	1,576,485		3,072,014	
	<u>\$ 61,958,190</u>		<u>\$ 58,226,099</u>	

\* The balance at July 31, 2016 and 2015 includes Aid to Construction of \$1,755,596 and \$898,814, respectively.

**(3) Investments in Associated Organizations**

Investments in Associated Organizations consists of the following at July 31:

	<u>2016</u>	<u>2015</u>
<i>Patronage Capital Credits:</i>		
Basin Electric Power Cooperative (BEPC)	\$ 3,192,613	\$ 2,973,609
BEPC Dakota Gasification Company	454,108	454,108
Rushmore Electric Power Cooperative, Inc.	322,771	314,635
National Rural Utilities Cooperative Finance Corporation (CFC)	130,771	117,460
Rural Electric Supply Company	120,189	116,148
Federated Rural Electric Insurance Corporation	89,288	85,650
National Information Solutions Cooperative	47,217	43,389
	<u>4,356,957</u>	<u>4,104,999</u>
<i>CFC Capital Term Certificates:</i>		
5.0% Due 10/01/2075-2090	221,222	221,222
3.0% Due 10/01/2030	7,300	7,300
0% Due Various Dates	20,039	21,838
	<u>248,561</u>	<u>250,360</u>
<i>CFC Capital Securities:</i>		
5% Due 12/29/2044	25,000	25,000
	<u>25,000</u>	<u>25,000</u>
Memberships	3,250	3,250
	<u>\$ 4,633,768</u>	<u>\$ 4,383,609</u>

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JULY 31, 2016 AND 2015**

**(4) Other Investments**

Other Investments consists of the following at July 31:

	<u>2016</u>	<u>2015</u>
Commercial Paper -- BEPC Debenture Notes - Revenue Deferral (Note 10); Interest Rate of 1.00 percent at July 31, 2016 and 2015, respectively	\$ 765,830	\$ 565,950
Patronage Capital Allocations	39,099	36,167
Rushmore Electric Federal Credit Union -- Share Account	5,972	5,967
	<u>\$ 810,901</u>	<u>\$ 608,084</u>

**(5) Cash and Cash Equivalents**

Cash and Cash Equivalents consists of the following at July 31:

	<u>2016</u>	<u>2015</u>
Cash on Hand	\$ 250	\$ 250
Cash in Checking	103,912	403,685
Commercial Paper -- BEPC Debenture Notes; Average Interest Rate of 0.25 and 0.33 percent for the years ended July 31, 2016 and July 31, 2015, respectively	1,887,584	3,460,990
	<u>\$ 1,991,746</u>	<u>\$ 3,864,925</u>

**(6) Deferred Charges**

Deferred Charges consists of the following at July 31:

	<u>2016</u>	<u>2015</u>
Deferred Costs -- Work Plans	\$ 28,295	\$ 107,785
Deferred Debits -- Equipment Clearing	24,804	26,327
Deferred Debits -- RS Prepayment (Note 12)	576,332	666,150
	<u>\$ 629,431</u>	<u>\$ 800,262</u>

**(7) Patronage Capital**

Patronage Capital consists of the following at July 31:

	<u>2016</u>	<u>2015</u>
Assignable	\$ 1,222,028	\$ 959,473
Assigned to Date	18,791,028	17,689,836
	<u>20,013,056</u>	<u>18,649,309</u>
Retired to Date	4,570,968	4,382,852
	<u>\$ 15,442,088</u>	<u>\$ 14,266,457</u>

Mortgage provisions restrict the retirement of patronage capital unless, after retirement, the capital of the Cooperative equals at least 30 percent of the total assets of the Cooperative; however, retirements can be made if such distributions do not exceed 25 percent of the preceding year's margins. No distribution can be made if there are unpaid, when due, installments of principal or interest on the notes, or, if after giving effect to any distribution, the total current and accrued assets would be less than the total current and accrued liabilities. As of July 31, 2016, capital credits through 1989 have been fully retired and a portion of 1990 through 2015 have been retired. During 2016 and 2015, the Cooperative retired capital credits, including estate retirements, of \$188,116 and \$341,739, respectively.



**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JULY 31, 2016 AND 2015**

**(8) Other Equities**

Other Equities consists of the following at July 31:

	<u>2016</u>	<u>2015</u>
Retired Capital Credits -- Gain (a)	\$ 100,172	\$ 77,188
Donated Capital (b)	209,609	196,872
	<u>\$ 309,781</u>	<u>\$ 274,060</u>

(a) The change in retired capital credits -- gain is primarily discounts on estate retirements.

(b) The change in donated capital is unclaimed capital credit checks.

**(9) Long-Term Debt**

Long-Term Debt consists of the following at July 31:

	<u>2016</u>	<u>2015</u>
<i>Rural Utilities Service (RUS) Mortgage Notes:</i>		
Fixed Rate Notes between 4.000 to 5.000 percent Due in Monthly Installments Through 2038 **	\$ -	\$ 10,213,698
<i>Federal Financing Bank (FFB) Mortgage Notes*:</i>		
Fixed Rate Notes between 2.230 to 4.280 percent Due in Quarterly Installments Through 2047	22,805,913	20,465,127
Less RUS Advance Payments (Earning Interest at 5 percent)	(1,768,235)	(1,682,404)
Total RUS and FFB Mortgage Notes	<u>21,037,678</u>	<u>28,996,421</u>
<i>CFC Mortgage Notes:</i>		
Variable and Fixed Rate Notes (2.50 to 6.90 percent at July 31, 2016), Due in Quarterly Installments Through 2038	15,634,144	6,325,444
	36,671,822	35,321,865
Less Current Maturities	1,501,888	1,199,378
	<u>\$ 35,169,934</u>	<u>\$ 34,122,487</u>

\* These notes are guaranteed by RUS.

The security agreement (mortgage) restricts the Cooperative's debt limit to \$50,000,000. Substantially all assets of the Cooperative are pledged as security on the mortgage notes. The Cooperative has complied with all substantial financial debt covenants as of July 31, 2016 and 2015.

\*\* During 2016, the Cooperative obtained financing from CFC Mortgage Notes with proceeds being used for repayment of RUS Mortgage Notes.

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JULY 31, 2016 AND 2015**

**(9) Long-Term Debt (Continued)**

The estimated principal payments for the next five years ending July 31 are as follows:

2017	\$ 1,501,888
2018	1,517,555
2019	1,498,563
2020	1,537,206
2021	1,567,358
Thereafter	<u>27,547,364***</u>
	<b>\$ <u>35,169,934</u></b>

\*\*\* Net of RUS advance payments which will be applied to the RUS debt balance at the discretion of Cooperative management.

In addition, the Cooperative has a \$4,200,000 revolving line of credit commitment (interest at 2.5 percent at July 31, 2016) from CFC. This is a perpetual commitment that renews automatically unless terminated by one of the parties. There were no advances on this line-of-credit at July 31, 2016 or 2015.

The Cooperative also had un-advanced mortgage notes from FFB of \$3,988,000 at July 31, 2016. An additional \$1,750,000 was drawn on the notes after year-end, before the date of audit report issuance.

**(10) Deferred Credits**

Deferred Credits consists of the following at July 31:

	<u>2016</u>	<u>2015</u>
Customer Advances for Construction	\$ 206,742	\$ 382,242
Customer Energy Prepayments	28,913	30,859
Revenue Deferral (Note 4) *	<u>765,830</u>	<u>565,950</u>
	<b>\$ <u>1,001,485</u></b>	<b>\$ <u>979,051</u></b>

\* At of July 31, 2016, RUS had approved revenue deferrals totaling \$765,830 which the Cooperative will recognize as revenue through 2020. The 2016 operating revenue includes a \$199,880 decrease to record a revenue deferral.

**(11) Commitment -- Wholesale Power Contract**

The Cooperative has entered into a wholesale power contract with Rushmore Electric Power Cooperative, Inc. of Rapid City, South Dakota, whereby the Cooperative purchases all electric power at wholesale until December 31, 2050. The rates paid by the Cooperative under the contract are subject to review from time to time by the seller.

In addition, the Cooperative has a long-term contract with Black Hills Power for transmission services through the year 2036. The Cooperative has an undivided interest in a shared portion of electric plant that provides services to Black Hills Power and two other cooperatives. The total investment in this shared portion of electric plant at July 31, 2016 and 2015 was \$4,198,342 and \$3,198,342, respectively, and is included in electric plant. The Cooperative will make additional investments in this shared portion of the plant as needed to stabilize its share of operating and maintenance related to the shared plant.

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JULY 31, 2016 AND 2015**

**(12) Pension Plans**

The Cooperative has a defined benefit multi-employer pension plan and a contributory defined contribution plan with all eligible employees participating. The plans are funded through payments to the National Rural Electric Cooperative Association (NRECA), which has established a trustee plan whereby annuities, effective upon retirement, will be available to participants in amounts established by the plan.

**Defined Benefit Pension Plan**

The NRECA Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employee plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's contributions to the RS Plan in 2016 and 2015 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative's total cost for the defined benefit pension plan was \$244,470 and \$226,822 for the years ended December 31, 2016 and 2015, respectively. In 2013, the Cooperative elected to participate in their prepayment option offered to participating employers. See description below for more information of the prepayment program.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employers. In total, the RS Plan was over 80 percent funded at January 1, 2015 and January 1, 2014 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of the plan experience.

In December 2012, NRECA approved an option to allow participating cooperatives in the RS Plan to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25 percent, retroactive to January 1, 2013. The 25 percent differential in billing rates is expected to continue for approximately 15 years. However changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than four years
2. Borrow funds sufficient to make the prepayment in a lump sum, with the repayment of the borrowed amount determined by the loan's amortization schedule (the Cooperative chose this option).

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the RS Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long term prepayment. This prepaid expense shall be amortized over a ten year period. If the entity chooses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (USOA).

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
JULY 31, 2016 AND 2015**

**(12) Pension Plans (Concluded)**

**Defined Benefit Pension Plan (Continued)**

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15 percent on Net Utility Plant if the equity level of the borrower, after considering such unsecured debt, is below 30 percent of its Total Assets unless the borrower obtains RUS consent.

RUS will consider any unsecured debt associated with the RS Plan prepayment to be "Permitted Debt" and accordingly it will be excluded from the application of Section 6.13(e).

On March 29, 2013, the Cooperative made a prepayment of \$898,179 to the RS Plan (Note 6). The Cooperative is amortizing this amount over ten years. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USOA (Note 6).

**Defined Contribution Plan**

The Cooperative makes matching contributions up to a maximum of 4.2 percent of employees' compensation to the defined contribution plan for the years ended July 31, 2016 and 2015, respectively. Employees may contribute up to the maximum allowed by the Internal Revenue Service. The Cooperative's total costs for this plan were **\$82,823** and \$76,800 for the years ended July 31, 2016 and 2015, respectively.

**(13) Activities with Associated Organizations**

The Cooperative is a member of other cooperatives that provide various services and products including power (Note 11), insurance, employee benefits (Note 12), materials and supplies, and with whom they have investments. The Cooperative also owns stock or earns patronage capital credits (Note 3) from the business it does with all these cooperatives. In addition, members of the board of directors of the Cooperative are also directors on certain of these other cooperatives' boards of directors from time to time.

**(14) Other Accounts Receivable**

In October 2013, storms damaged distribution lines in the Cooperative's service area. The estimated total cost for the repair of the damaged lines is \$2,032,179 and will be reimbursed 75 percent by the Federal Emergency Management Agency (FEMA) and 10 percent by the State of South Dakota (SD). At July 31, 2016, the Cooperative has incurred \$1,965,816 of federal expenditures related to storm repairs. In addition, during the year ended July 31, 2016, the Cooperative received Hazard Mitigation Grants administered by FEMA. The total estimated cost under these grants is \$1,217,446 and will be reimbursed 75 percent by FEMA. At July 31, 2016, the Cooperative has incurred \$913,084 of federal expenditures related to these grants. At July 31, 2016, the Cooperative has recorded a receivable of **\$1,755,596**, including \$703,237 for July 31, 2015, for the reimbursement it expects to receive from government agencies for storm work complete. Due to these FEMA projects, construction in progress, aid to construction, and other accounts receivable have increased significantly over the past years and will be closed out in the normal course of business with final approval by FEMA, which is expected to be completed in 2017.

As of October 17, 2016, the date which the financial statements were available to be issued, FEMA had not yet performed close out procedures for \$318,486 of payments received or for the \$1,755,596 of receivables. It is at least reasonably possible the Cooperative could be subject to a liability for a portion of these payments received, or may not receive the entire balance recorded as receivable, due to potential unallowed costs discovered during the future close out procedures performed by FEMA. Based on past experience with FEMA funding, management does not believe any potential adjustment to be material.

SUPPLEMENTAL INFORMATION

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**SCHEDULE OF LONG-TERM DEBT  
JULY 31, 2016 AND 2015**

Note	Date of Note	Maturity Date	Original Note Amount	Principal Repayments	Net Obligations July 31,	
					2016	2015
<b>RUS MORTGAGE NOTES:</b>						
<i>5% Notes</i>						
1B260	07/01/98	07/01/33	\$ 650,000	\$ 650,000	\$ -	\$ 474,321
1B261	07/01/98	07/01/33	650,000	650,000	-	474,321
1B265	07/01/98	07/01/33	500,000	500,000	-	370,800
1B281	07/01/03	07/01/38	750,000	750,000	-	632,011
<i>Municipal Rate Notes 4.125% to 4.875%</i>						
1B262	07/01/98	07/01/33	566,000	566,000	-	411,545
1B266	07/01/98	07/01/33	675,000	675,000	-	491,971
1B267	07/01/98	07/01/33	691,000	691,000	-	512,337
1B270	01/02/02	01/02/37	1,000,000	1,000,000	-	793,446
1B271	01/02/02	01/02/37	406,500	406,500	-	327,081
1B275	01/02/02	01/02/37	703,250	703,250	-	555,895
1B276	01/02/02	01/02/37	703,250	703,250	-	565,749
1B280	07/01/03	07/01/38	900,000	900,000	-	745,201
1B282	07/01/03	07/01/38	1,110,000	1,110,000	-	914,631
1B283	07/01/03	07/01/38	356,000	356,000	-	298,606
1B284	07/01/03	07/01/38	1,000,000	1,000,000	-	839,295
1B285	07/01/03	07/01/38	1,000,000	1,000,000	-	843,734
1B286	07/01/03	07/01/38	1,116,000	1,116,000	-	962,754
<b>Total RUS Mortgage Notes</b>			<b>12,777,000</b>	<b>12,777,000</b>	<b>-</b>	<b>10,213,698</b>
<b>RUS-FFB MORTGAGE NOTES:</b>						
<i>2.230% - 4.280% Notes</i>						
H0010	09/01/09	12/31/43	5,000,000	402,049	<b>4,597,951</b>	4,685,019
H0015	08/05/10	12/31/43	1,999,000	173,916	<b>1,825,084</b>	1,862,429
H0020	03/07/11	12/31/43	2,000,000	158,607	<b>1,841,393</b>	1,875,792
H0025	08/02/11	12/31/43	1,000,000	90,962	<b>909,038</b>	927,842
H0030	06/07/12	12/31/43	2,000,000	178,448	<b>1,821,552</b>	1,868,406
H0035	02/08/13	12/31/43	1,332,000	94,598	<b>1,237,402</b>	1,267,324
H0040	10/29/13	12/31/47	3,000,000	64,988	<b>2,935,012</b>	2,987,133
H0045	05/02/14	12/31/47	2,000,000	44,525	<b>1,955,475</b>	1,991,182
F0050	06/05/15	12/31/47	3,000,000	51,967	<b>2,948,033</b>	3,000,000
F0055	02/09/16	12/31/47	2,750,000	15,027	<b>2,734,973</b>	-
<b>Total RUS-FFB Mortgage Notes</b>			<b>24,081,000</b>	<b>1,275,087</b>	<b>22,805,913</b>	<b>20,465,127</b>
<b>Total RUS Notes</b>			<b>36,858,000</b>	<b>14,052,087</b>	<b>22,805,913</b>	<b>30,678,825</b>
<b>Less RUS Advance Payments</b>				<b>1,768,235</b>	<b>(1,768,235)</b>	<b>(1,682,404)</b>
<b>Total RUS and FFB Mortgage Notes</b>				<b>15,820,322</b>	<b>21,037,678</b>	<b>28,996,421</b>

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**SCHEDULE OF LONG TERM-DEBT (CONTINUED)  
JULY 31, 2016 AND 2015**

Note	Date of Note	Maturity Date	Original Note Amount	Principal Repayments	Net Obligations July 31,		
					2016	2015	
<b>CFC MORTGAGE NOTES:</b>							
<i>Variable Rates</i>							
9009	a	12/19/94	10/01/29	236,347	85,032	151,315	158,483
9010	a	06/30/00	06/30/33	415,000	83,686	331,314	340,185
9011	a	12/31/02	12/31/36	312,000	88,212	223,788	231,766
<i>Fixed Rates</i>							
9005	b	10/25/82	10/01/17	146,000	130,797	15,203	26,495
9006	b	03/17/86	01/01/21	140,816	98,507	42,309	50,103
9007	b	04/17/89	04/01/24	275,510	144,734	130,776	143,200
9008	b	10/18/93	10/01/28	340,816	137,943	202,873	213,099
9012	c	7/1/2006	06/30/38	692,000	89,508	602,492	617,117
9013	c	04/29/04	various *	805,000	696,521	108,479	179,729
9014	c	06/17/11	various **	4,200,000	1,433,207	2,766,793	3,057,600
9016	c	06/30/13	07/16/29	1,555,362	335,970	1,219,392	1,307,667
9017	c	10/15/15	various ***	10,188,522	349,112	9,839,410	-
<b>Total CFC Mortgage Notes</b>				<b>19,307,373</b>	<b>3,673,229</b>	<b>15,634,144</b>	<b>6,325,444</b>
<b>Total</b>				<b>\$ 56,165,373</b>	<b>\$ 19,493,551</b>	<b>36,671,822</b>	<b>35,321,865</b>
<b>Less Current Portion</b>						<b>1,501,888</b>	<b>1,199,378</b>
<b>Total Long-Term Portion</b>						<b>\$ 35,169,934</b>	<b>\$ 34,122,487</b>

- a - The variable interest rate was 2.50 percent at July 31, 2016.
- b - The fixed interest rates were 6.65 - 6.90 percent at July 31, 2016.
- c - The fixed interest rates were 2.50 - 5.05 percent at July 31, 2016.
- \* - The maturity dates range from 3/31/17 - 3/31/18.
- \*\* - The maturity dates range from 9/30/16 - 9/30/26.
- \*\*\* - The maturity dates range from 3/31/17 - 3/31/38.

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**COMPARATIVE STATEMENTS OF OPERATIONS  
FOR EACH OF THE FIVE YEARS ENDED JULY 31, 2016 TO 2012**

	-----2016-----		-----2015-----	
	AMOUNT	PERCENT	AMOUNT	PERCENT
<b>Operating Revenue *</b>	<u>\$ 13,482,497</u>	<u>100.00</u>	<u>\$ 12,659,103</u>	<u>100.00</u>
<b>Operating Expenses</b>				
Cost of Power	6,147,115	45.59	5,930,685	46.85
Depreciation	1,582,176	11.74	1,497,462	11.83
Distribution -- Operations	978,439	7.26	878,481	6.94
Administrative and General	928,495	6.89	845,134	6.68
Distribution -- Maintenance	553,109	4.10	411,397	3.25
Transmission	298,167	2.21	300,106	2.37
Customer Accounts	287,528	2.13	313,652	2.48
Customer Service and Informational	226,782	1.68	149,876	1.18
Other	13,393	0.10	13,223	0.10
<b>Total Operating Expenses</b>	<u>11,015,204</u>	<u>81.70</u>	<u>10,340,016</u>	<u>81.68</u>
<b>Operating Margin Before Fixed Charges</b>	<b>2,467,293</b>	<b>18.30</b>	<b>2,319,087</b>	<b>18.32</b>
<b>Fixed Charges</b>				
Interest on Long-Term Debt	<u>1,399,810</u>	<u>10.38</u>	<u>1,404,759</u>	<u>11.10</u>
<b>Operating Margin (Loss) After Fixed Charges</b>	<b>1,067,483</b>	<b>7.92</b>	<b>914,328</b>	<b>7.22</b>
<b>Generation and Transmission and Other Cooperative Capital Credits</b>	<u>286,666</u>	<u>2.13</u>	<u>334,691</u>	<u>2.64</u>
<b>Net Operating Margin (Loss)</b>	<b>1,354,149</b>	<b>10.05</b>	<b>1,249,019</b>	<b>9.86</b>
<b>Net Non-operating Margin</b>	<u>9,598</u>		<u>107,121</u>	
<b>Net Margin</b>	<u>\$ 1,363,747</u>		<u>\$ 1,356,140</u>	

\* The 2012 operating revenue figure includes \$315,950 to recognize amortization of the revenue deferral. The 2016 and 2014 operating revenue figure includes a \$199,880 and \$250,000 decrease, respectively, to record a revenue deferral.



-----2014-----		-----2013-----		-----2012-----	
<u>AMOUNT</u>	<u>PERCENT</u>	<u>AMOUNT</u>	<u>PERCENT</u>	<u>AMOUNT</u>	<u>PERCENT</u>
<u>\$ 12,670,703</u>	<u>100.00</u>	<u>\$ 12,157,541</u>	<u>100.00</u>	<u>\$ 11,457,368</u>	<u>100.00</u>
6,232,220	49.19	5,728,023	47.11	5,154,779	44.99
1,421,135	11.22	1,417,505	11.66	1,391,714	12.15
827,134	6.53	798,336	6.57	819,132	7.15
744,635	5.88	796,890	6.55	742,519	6.48
468,636	3.70	488,950	4.02	402,149	3.51
253,156	2.00	293,689	2.42	259,153	2.25
309,146	2.44	311,623	2.56	303,281	2.65
129,751	1.02	142,407	1.17	146,721	1.28
15,323	0.12	3,403	0.03	16,911	0.15
<u>10,401,136</u>	<u>82.10</u>	<u>9,980,826</u>	<u>82.09</u>	<u>9,236,359</u>	<u>80.61</u>
2,269,567	17.90	2,176,715	17.91	2,221,009	19.39
<u>1,370,445</u>	<u>10.82</u>	<u>1,310,290</u>	<u>10.78</u>	<u>1,307,974</u>	<u>11.42</u>
899,122	7.08	866,425	7.13	913,035	7.97
<u>362,393</u>	<u>2.86</u>	<u>266,781</u>	<u>2.19</u>	<u>304,852</u>	<u>2.66</u>
1,261,515	<u>9.94</u>	1,133,206	<u>9.32</u>	1,217,887	<u>10.63</u>
<u>88,292</u>		<u>61,994</u>		<u>18,439</u>	
<u>\$ 1,349,807</u>		<u>\$ 1,195,200</u>		<u>\$ 1,236,326</u>	

## OTHER REPORTS AND INFORMATION



## Ketel Thorstenson, LLP

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### 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 *GOVERNMENTAL AUDITING STANDARDS*

Board of Directors  
Butte Electric Cooperative, Inc.  
Newell, South Dakota

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 **BUTTE ELECTRIC COOPERATIVE, INC.** (the Cooperative), which comprise the balance sheets as of July 31, 2016 and 2015 and the related statements of operations and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2016.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the 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 Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 Cooperative's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings, as 2016-001 and 2016-002, that we consider to be material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative'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 determination of financial statement amounts. 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*.

Board of Directors  
Butte Electric Cooperative, Inc.  
Page Two

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**Cooperative's Responses to Findings**

The Cooperative's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings. The Cooperative's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

**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 Cooperative'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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



KETEL THORSTENSON, LLP  
Certified Public Accountants

October 17, 2016

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**SCHEDULE OF AUDIT FINDINGS  
FOR THE YEAR ENDED JULY 31, 2016**

**Material Weaknesses**

2016-001: Financial Statement Preparation

*Condition and Cause:* As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the Cooperative's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the Cooperative in connection with our audit. It is not unusual for us to do this with organizations of your size.

*Criteria and Effect:* This deficiency could result in a misstatement to the financial statements that could have been prevented or detected by Cooperative management.

*Recommendation:* It is the Board's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy.

*Response:* At this time, the Cooperative will accept the degree of risk that is associated with this condition.

2016-002: Audit Adjustments

*Condition and Cause:* Management had tracked FEMA related expenses and related reimbursements; however a receivable was not recorded at year-end. As such, \$1,755,596 of accounts receivable due from FEMA and the State of South Dakota was recorded as part of the audit process.

*Criteria and Effect:* Cooperative management provided details related to FEMA and State reimbursement requests and amounts received to calculate the FEMA and State receivable at July 31, 2016; however no receivable was recorded in the financial statements.

*Recommendation:* The FEMA and State receivable should be monitored and adjusted monthly.

*Response:* At this time, the Cooperative will accept the degree of risk that is associated with this condition.

**STATUS OF PRIOR YEAR FINDINGS**

**2015-001 Preparation of the Financial Statements**

We were requested to draft the financial statement as part of our regular audit services. This finding was repeated in the current year and is shown as 2016-001 above.

**2015-002 Internal Control over Significant Accounts**

Management had tracked FEMA related expenses and related reimbursements; however a receivable was not recorded at year-end. As such, \$703,237 of accounts receivable due from FEMA and the State of South Dakota was recorded as a part of the audit process. This finding was revised and repeated in the current year and is shown as 2016-002 above.





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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

Board of Directors  
Butte Electric Cooperative, Inc.  
Newell, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **BUTTE ELECTRIC COOPERATIVE, INC.** (the Cooperative), which comprise the balance sheet as of July 31, 2016, and the related statements of operations and patronage capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of the Cooperative's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Services Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting records that indicate the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods of accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of the plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operating or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, as clarified in the RUS policy memorandum dated February 7, 2014. Accordingly, this report is not suitable for any other purpose.



KETEL THORSTENSON, LLP  
Certified Public Accountants

October 17, 2016

**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**DIRECTORS AND OFFICERS  
JULY 31, 2016**

Cris Miller, President

Dan Marrs, Vice-President

Thomas Brunner, Secretary

Daniel Hefner, Treasurer

Steve Smeenk, Assistant Secretary

Frank Dobesh, Director

Thomas Casteel, Director

Bryce Foos, Director

Matt Sleep, Director

Ronda Miller, Attorney





**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
NEWELL, SOUTH DAKOTA**



**Ketel Thorstenson, LLP**  
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**SOUTH DAKOTA 15 BUTTE  
BUTTE ELECTRIC COOPERATIVE, INC.  
TABLE OF CONTENTS**

	<u>PAGE</u>
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 <i>Government Auditing Standards</i> .....	1-2
Independent Auditor’s Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	3-4
Schedule of Expenditures of Federal Awards.....	5
Schedule of Findings and Questioned Costs.....	6-7
Corrective Action Plans .....	8





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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*

Board of Directors  
Butte Electric Cooperative, Inc.  
Newell, South Dakota

In a separate report, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of **BUTTE ELECTRIC COOPERATIVE, INC.** (the Cooperative) which comprise the balance sheets as of July 31, 2016 and 2015, and the related statements of operations and patronage capital and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audits of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine our 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 Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 Cooperative's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2016-001 and 2016-002 that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative'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 determination of financial statement amounts. 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*.

**Cooperative's Response to Findings**

The Cooperative's responses to the findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Cooperative's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

**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 Cooperative'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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



KETEL THORSTENSON, LLP  
Certified Public Accountants

October 17, 2016





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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Butte Electric Cooperative, Inc.  
Newell, South Dakota

### **Report on Compliance for Each Major Federal Program**

We have audited **BUTTE ELECTRIC COOPERATIVE, INC.** (the Cooperative's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Cooperative's major federal program for the year ended July 31, 2016. The Cooperative's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Cooperative's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination on the Cooperative's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended July 31, 2016.

### **Report on Internal Control Over Compliance**

Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as 2016-001 and 2016-002 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as 2016-003 to be a significant deficiency.

***Cooperative's Response to Findings***

The Cooperative's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Cooperative's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Purpose of Report***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of **BUTTE ELECTRIC COOPERATIVE, INC.** as of and for the year ended July 31, 2016, and have issued our report on October 17, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



KETEL THORSTENSON, LLP  
Certified Public Accountants

**BUTTE ELECTRIC COOPERATIVE, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEARS ENDED JULY 31, 2016**

	<u>CFDA Number</u>	Pass Through Entity Identifying <u>Number</u>	<u>Amount Expended</u>
<i>U.S Department of Homeland Security:</i>			
Pass-Through the S.D. Department of Public Safety - Emergency Management:			
		PW-00218	
<u>Public Assistance Grants</u>	97.036	PW-00219	\$ 122,889
<u>Hazard Mitigation Grants</u>	97.039	20R, 21R	913,084
<b><u>Total Expenditures of Federal Awards</u></b>			<b>\$ 1,035,973</b>

Note 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of Butte Electric Cooperative, Inc. (the Cooperative) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2: The Cooperative did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**BUTTE ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JULY 31, 2016**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of Butte Electric Cooperative, Inc. (the Cooperative).
2. Two material weaknesses relating to the audit of the financial statements is reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Cooperative were disclosed during the audit.
4. Two material weaknesses and a significant deficiency relating to the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for the Cooperative expresses an unmodified opinion.
6. Audit findings that were required to be reported in accordance with the Uniform Guidance are reported in Part C of this schedule.
7. The program tested as a major program was Hazard Mitigation Grants, CFDA #97.039.
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Cooperative was not determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**Material Weaknesses**

**2016-001 – Financial Statement Preparation**

*Condition and Cause:* As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the Cooperative's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the Cooperative in connection with our audit. It is not unusual for us to do this with organizations of your size.

*Criteria and Effect:* This deficiency could result in a misstatement to the financial statements that could have been prevented or detected by Cooperative management.

*Auditor's Recommendation:* It is the Board's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy.

*Views of Responsible Officials:* Management has evaluated the degree of risk associated with this condition and feels its current practice is sufficient. See attached corrective action.



**BUTTE ELECTRIC COOPERATIVE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JULY 31, 2016**

**Material Weaknesses (Continued)**

**2016-002 - Preparation of the Schedule of Expenditures of Federal Awards (SEFA)**

*Condition and Cause:* We were requested to draft the SEFA as part of our regular audit services. We adjusted to accounts receivable due from FEMA and the State of South Dakota by approximately \$1,755,000. Ultimately, it is management's responsibility to provide for the preparation of your SEFA, and the responsibility of the auditor to determine the fairness of presentation of this statement. From a practical standpoint, we do both for you at the same time in connection with our audit. This is not unusual with organizations of your size.

*Criteria and Effect:* This deficiency could result in a material misstatement to the SEFA awards that could have been prevented or detected by your management.

*Auditor's Recommendation:* It is the Board of Directors responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

*Views of Responsible Officials:* Management has evaluated the degree of risk associated with this condition and feels its current practice is sufficient. See attached corrective action.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

Findings 2016-001 and 2016-002 relate to the major federal award Hazard Mitigation Grants, CFDA #97.039 regarding reporting and allowable cost requirements.

**Significant Deficiency**

**2016-003 – Grant Reporting**

*Condition and Cause:* During the course of our audit, we noted management does not retain supporting documentation for quarterly expenditures reported under the Hazard Mitigation Grants. Management had noted to us that they obtain quarterly information from their accounting system based on total work completed and charged to projects; however, these reports are not retained as of the date quarterly reports are generated nor are they reviewed prior to being submitted.

*Criteria and Effect:* This deficiency could result in non-compliance findings from the granting agency and result in questioned costs.

*Auditor's Recommendation:* We recommend that management retain all supporting information used to complete reports required under grant agreements. We also recommend that management implement a review process prior to reports being submitted to granting agencies.

*Views of Responsible Officials:* Management agrees with this finding. See attached corrective action plan.

**STATUS OF PRIOR YEAR FINDINGS**

There were no prior year audit findings.

**BUTTE ELECTRIC COOPERATIVE, INC.  
CORRECTIVE ACTION PLANS  
FOR THE YEAR ENDED JULY 31, 2016**

**2016-001 – Financial Statement Preparation**

Management does not anticipate this finding to be corrected as they have chosen to accept the degree of risk associated with this finding.

**2016-002 – Preparation of the Schedule of Expenditures of Federal Awards (SEFA)**

Management does not anticipate this finding to be corrected as they have chosen to accept the degree of risk associated with this finding.

**2016-003 – Grant Reporting**

Management will retain supporting information used for grant reporting starting immediately. John Lee is responsible for this corrective action plan.



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C/O 500 EAST CAPITOL  
PIERRE SD 57501-5070  
(605) 773-3595

MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

Date: November 3, 2016

To: SD Department of Education  
SD State Board of Internal Control

Re: Audit Report on – Feeding South Dakota  
As of and for the year ended June 30, 2016  
By: Eide Bailly, LLP, CPAs

We have accepted the final report on the audit of the above-named entity conducted under the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does identify audit findings pertaining to federal award programs administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See page 8. Accordingly, you are required to issue a management decision on the audit findings within six months after receipt of this audit report (OMB Uniform Guidance §200.331(d)(3)).

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA  
Auditor General

MLG:sld

Enclosure



Financial Statements  
June 30, 2016 and 2015  
**Feeding South Dakota**

Independent Auditor's Report.....	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities .....	4
Statements of Functional Expenses.....	5
Statements of Cash Flows .....	7
Notes to Financial Statements.....	8



## Independent Auditor's Report

The Board of Directors  
Feeding South Dakota  
Sioux Falls, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of Feeding South Dakota (the Organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

### 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Feeding South Dakota as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2016 on our consideration of Feeding South Dakota'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 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 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 Feeding South Dakota's internal control over financial reporting and compliance.

Handwritten signature of Erik Sallie LLP in cursive script.

Sioux Falls, South Dakota  
October 13, 2016

Feeding South Dakota  
Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 495,103	\$ 1,660,178
Cash temporarily restricted by donors	827,503	2,763,012
Investments - marketable securities	182,271	1,071,187
Accounts receivable	95,258	78,630
Grants receivable	243,661	105,613
Promises to give - current	404,363	510,644
Food inventory	2,024,220	1,963,403
Prepaid expenses	34,443	40,930
Total current assets	4,306,822	8,193,597
Fixed Assets		
Land	506,637	697,776
Buildings	2,879,983	2,892,856
Furniture and equipment	1,006,436	921,410
Vehicles	728,893	618,111
Construction in process	4,623,626	262,862
	9,745,575	5,393,015
Accumulated depreciation	(981,449)	(1,404,948)
Total fixed assets	8,764,126	3,988,067
Other Assets		
Promises to give - long-term, net	133,822	152,851
Investments, long-term	350,499	100,973
Assets held for sale	465,092	470,094
Beneficial interest in assets held by community foundations	355,811	367,075
Total other assets	1,305,224	1,090,993
Total assets	\$ 14,376,172	\$ 13,272,657
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 891,362	\$ 274,184
Earnest money deposits held	-	50,000
Accrued expenses	146,961	120,427
Total current liabilities	1,038,323	444,611
Net Assets		
Unrestricted	11,731,268	9,156,280
Temporarily restricted	1,280,919	3,346,104
Permanently restricted	325,662	325,662
Total net assets	13,337,849	12,828,046
Total liabilities and net assets	\$ 14,376,172	\$ 13,272,657



	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Public Support and Revenue				
Public support				
Contributions	\$ 2,811,775	\$ 353,144	\$ -	\$ 3,164,919
In-kind donations	19,031,683	-	-	19,031,683
United Way	390,607	11,429	-	402,036
Governmental fees and grants	290,746	-	-	290,746
Commodities program	2,111,050	-	-	2,111,050
Capital campaign	757,394	-	-	757,394
Total public support	<u>25,393,255</u>	<u>364,573</u>	<u>-</u>	<u>25,757,828</u>
Revenue				
Handling fees	1,131,913	-	-	1,131,913
Net investment income	19,462	-	-	19,462
Gain on disposal of fixed assets	26,542	-	-	26,542
Distributions from and change in value of beneficial interest in assets held by community foundations	(11,264)	-	-	(11,264)
Other	9,980	-	-	9,980
Total revenue	<u>1,176,633</u>	<u>-</u>	<u>-</u>	<u>1,176,633</u>
Net assets released from restrictions				
Satisfaction of program restrictions	2,429,758	(2,429,758)	-	-
Total public support, revenue and reclassifications	<u>28,999,646</u>	<u>(2,065,185)</u>	<u>-</u>	<u>26,934,461</u>
Expenses				
Program services				
Food Bank - Sioux Falls	10,537,300	-	-	10,537,300
Food Pantry - Sioux Falls	2,205,243	-	-	2,205,243
Food Bank - Rapid City	4,499,965	-	-	4,499,965
Food Pantry - Rapid City	2,544,333	-	-	2,544,333
Food Bank - Pierre	1,172,630	-	-	1,172,630
Commodity Food Programs	2,470,914	-	-	2,470,914
BackPack Program	857,878	-	-	857,878
Mobile Food Pantry	1,019,739	-	-	1,019,739
Total program services	<u>25,308,002</u>	<u>-</u>	<u>-</u>	<u>25,308,002</u>
Fundraising	743,862	-	-	743,862
General and administrative	372,794	-	-	372,794
Total expenses	<u>26,424,658</u>	<u>-</u>	<u>-</u>	<u>26,424,658</u>
Change in Net Assets	2,574,988	(2,065,185)	-	509,803
Net Assets, Beginning of Year	<u>9,156,280</u>	<u>3,346,104</u>	<u>325,662</u>	<u>12,828,046</u>
Net Assets, End of Year	<u>\$ 11,731,268</u>	<u>\$ 1,280,919</u>	<u>\$ 325,662</u>	<u>\$ 13,337,849</u>

See Notes to Financial Statements

Feeding South Dakota  
Statements of Activities  
Years Ended June 30, 2016 and 2015

2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,529,485	\$ 173,719	\$ 10,000	\$ 2,713,204
16,940,186	-	-	16,940,186
375,211	-	-	375,211
375,608	17,574	-	393,182
2,417,412	-	-	2,417,412
<u>1,637,961</u>	<u>1,485,922</u>	<u>-</u>	<u>3,123,883</u>
<u>24,275,863</u>	<u>1,677,215</u>	<u>10,000</u>	<u>25,963,078</u>
1,016,456	-	-	1,016,456
(1,460)	-	-	(1,460)
311,368	-	-	311,368
(10,692)	-	-	(10,692)
<u>6,951</u>	<u>-</u>	<u>-</u>	<u>6,951</u>
<u>1,322,623</u>	<u>-</u>	<u>-</u>	<u>1,322,623</u>
<u>59,193</u>	<u>(59,193)</u>	<u>-</u>	<u>-</u>
<u>25,657,679</u>	<u>1,618,022</u>	<u>10,000</u>	<u>27,285,701</u>
9,827,597	-	-	9,827,597
1,746,449	-	-	1,746,449
3,757,141	-	-	3,757,141
2,044,260	-	-	2,044,260
1,081,607	-	-	1,081,607
2,849,387	-	-	2,849,387
892,851	-	-	892,851
<u>830,945</u>	<u>-</u>	<u>-</u>	<u>830,945</u>
<u>23,030,237</u>	<u>-</u>	<u>-</u>	<u>23,030,237</u>
694,256	-	-	694,256
<u>321,093</u>	<u>-</u>	<u>-</u>	<u>321,093</u>
<u>24,045,586</u>	<u>-</u>	<u>-</u>	<u>24,045,586</u>
1,612,093	1,618,022	10,000	3,240,115
<u>7,544,187</u>	<u>1,728,082</u>	<u>315,662</u>	<u>9,587,931</u>
<u>\$ 9,156,280</u>	<u>\$ 3,346,104</u>	<u>\$ 325,662</u>	<u>\$ 12,828,046</u>

	Program Service				
	Sioux Falls Food Bank	Sioux Falls Food Pantry	Rapid City Food Bank	Rapid City Food Pantry	Pierre Food Bank
Salaries	\$ 319,674	\$ 132,376	\$ 188,706	\$ 114,069	\$ 116,885
Payroll taxes	25,050	10,374	14,788	8,939	9,160
Employee benefits	70,052	29,009	41,353	24,997	25,614
Total salaries and related benefits	<u>414,776</u>	<u>171,759</u>	<u>244,847</u>	<u>148,005</u>	<u>151,659</u>
Food and transportation costs	712,891	27,952	272,230	24,867	173,691
Backpack food	-	-	-	-	-
Supplies	4,342	4,832	1,401	1,573	745
Utilities	27,006	5,731	34,474	3,995	15,631
Repairs and maintenance	49,817	11,174	26,073	6,053	23,279
Insurance and taxes	16,860	-	9,414	-	8,194
Computer/software costs	19,444	2,294	8,400	1,828	6,922
Postage	8,590	-	3,472	-	1,660
Printing and promotions	6,909	400	2,082	282	1,742
Telephone	6,019	769	2,176	585	1,277
Conferences	3,078	235	325	-	93
Travel	11,706	110	7,130	22	3,037
Vehicle operating costs	86,178	3,402	12,806	3,217	13,615
Professional fees	3,127	-	2,531	-	2,506
Awards and gifts	2,320	549	2,952	401	453
Dues and subscriptions	5,226	-	3,077	-	771
Miscellaneous	10,610	232	177	33	-
Depreciation	69,937	4,358	47,939	15,980	49,571
Overhead allocation	(120,076)	(8,650)	(25,257)	(11,126)	(105,012)
Total expenses before donated goods and services	<u>1,338,760</u>	<u>225,147</u>	<u>656,249</u>	<u>195,715</u>	<u>349,834</u>
In-kind goods and services used	157,361	2,174	280	1,550	-
Food donations distributed	8,690,475	1,796,007	3,707,365	2,258,862	785,519
Spoilage/due date disposals/waste	350,704	181,915	136,071	88,206	37,277
Total donated goods and services	<u>9,198,540</u>	<u>1,980,096</u>	<u>3,843,716</u>	<u>2,348,618</u>	<u>822,796</u>
Total expenses	<u>\$ 10,537,300</u>	<u>\$ 2,205,243</u>	<u>\$ 4,499,965</u>	<u>\$ 2,544,333</u>	<u>\$ 1,172,630</u>

See Notes to Financial Statements

Feeding South Dakota  
Statements of Functional Expenses  
Year Ended June 30, 2016

Commodity Food Programs	Program Service		Total	Fundraising	General and Administration	Total FY 2016
	BackPack Program	Mobile Food Pantry				
\$ 10,603	\$ 60,499	\$ 10,486	\$ 953,298	\$ 259,119	\$ 277,426	\$ 1,489,843
-	-	-	68,311	20,306	21,741	110,358
-	-	-	191,025	56,783	60,795	308,603
<u>10,603</u>	<u>60,499</u>	<u>10,486</u>	<u>1,212,634</u>	<u>336,208</u>	<u>359,962</u>	<u>1,908,804</u>
40,581	2,400	46,529	1,301,141	-	-	1,301,141
-	656,854	-	656,854	-	-	656,854
22,031	1,988	1,499	38,411	-	6,057	44,468
-	-	-	86,837	-	11,284	98,121
-	-	-	116,396	-	15,125	131,521
-	-	1,327	35,795	-	4,651	40,446
-	-	-	38,888	-	5,053	43,941
-	-	-	13,722	63,407	3,366	80,495
349	-	-	11,764	298,789	2,801	313,354
-	-	-	10,826	3,218	3,445	17,489
-	-	-	3,731	-	915	4,646
-	-	-	22,005	-	5,398	27,403
-	-	9,742	128,960	-	-	128,960
-	-	-	8,164	18,756	13,580	40,500
-	-	-	6,675	3,393	722	10,790
-	-	-	9,074	-	732	9,806
-	-	-	11,052	4,217	3,517	18,786
-	-	19,744	207,529	-	26,967	234,496
193,575	93,792	82,785	100,031	-	(100,031)	-
<u>267,139</u>	<u>815,533</u>	<u>172,112</u>	<u>4,020,489</u>	<u>727,988</u>	<u>363,544</u>	<u>5,112,021</u>
-	-	-	161,365	15,874	9,250	186,489
2,155,128	42,345	847,627	20,283,328	-	-	20,283,328
48,647	-	-	842,820	-	-	842,820
<u>2,203,775</u>	<u>42,345</u>	<u>847,627</u>	<u>21,287,513</u>	<u>15,874</u>	<u>9,250</u>	<u>21,312,637</u>
<u>\$ 2,470,914</u>	<u>\$ 857,878</u>	<u>\$ 1,019,739</u>	<u>\$ 25,308,002</u>	<u>\$ 743,862</u>	<u>\$ 372,794</u>	<u>\$ 26,424,658</u>

	Program Service				
	Sioux Falls Food Bank	Sioux Falls Food Pantry	Rapid City Food Bank	Rapid City Food Pantry	Pierre Food Bank
Salaries	\$ 246,356	\$ 140,635	\$ 181,448	\$ 85,121	\$ 95,418
Payroll taxes	19,486	11,163	14,394	6,756	7,540
Employee benefits	52,836	30,268	39,030	18,320	20,444
Total salaries and related benefits	<u>318,678</u>	<u>182,066</u>	<u>234,872</u>	<u>110,197</u>	<u>123,402</u>
Food and transportation costs	494,347	1,636	220,591	1,665	146,093
Backpack food	-	-	-	-	-
Supplies	-	-	-	-	-
Lease/rent expense	16,799	4,169	-	-	-
Utilities	24,132	8,817	32,330	4,022	8,044
Repairs and maintenance	42,471	15,049	24,944	7,112	12,302
Insurance and taxes	11,904	2,899	9,156	671	4,371
Computer/software costs	16,009	3,938	9,627	2,006	4,887
Postage	6,229	208	3,691	-	2,133
Printing and promotions	5,131	1,161	2,753	752	1,261
Telephone	3,412	1,120	2,522	299	1,197
Conferences	1,536	23	1,426	187	734
Travel	8,987	545	5,928	293	5,195
Vehicle operating costs	57,148	9,344	17,805	3,453	21,155
Professional fees	11,318	569	8,653	-	9,402
Awards and gifts	6,494	15	6,488	-	3,251
Dues and subscriptions	5,877	14	3,278	-	806
Miscellaneous	7,918	155	1,613	124	527
Depreciation	56,618	4,154	45,695	15,232	32,155
Overhead allocation	(129,544)	(5,185)	(25,838)	(12,250)	(91,232)
Total expenses before donated goods and services	<u>965,464</u>	<u>230,697</u>	<u>605,534</u>	<u>133,763</u>	<u>285,683</u>
In-kind goods and services used	165,346	5,238	6,110	934	112
Food donations distributed	8,536,148	1,328,524	3,107,051	1,611,442	744,655
Spoilage/du e date disposals/waste	<u>160,639</u>	<u>181,990</u>	<u>38,446</u>	<u>298,121</u>	<u>51,157</u>
Total donated goods and services	<u>8,862,133</u>	<u>1,515,752</u>	<u>3,151,607</u>	<u>1,910,497</u>	<u>795,924</u>
Total expenses	<u>\$ 9,827,597</u>	<u>\$ 1,746,449</u>	<u>\$ 3,757,141</u>	<u>\$ 2,044,260</u>	<u>\$ 1,081,607</u>

See Notes to Financial Statements

Feeding South Dakota  
Statements of Functional Expenses  
Year Ended June 30, 2015

Commodity Food Programs	Program Service		Total	Fundraising	General and Administration	Total FY 2015
	BackPack Program	Mobile Food Pantry				
\$ 15,495	\$ 59,592	\$ 9,438	\$ 833,503	\$ 222,055	\$ 264,000	\$ 1,319,558
-	-	-	59,339	17,625	20,955	97,919
-	-	-	160,898	47,791	56,818	265,507
<u>15,495</u>	<u>59,592</u>	<u>9,438</u>	<u>1,053,740</u>	<u>287,471</u>	<u>341,773</u>	<u>1,682,984</u>
59,770	-	60,209	984,311	-	-	984,311
-	653,746	-	653,746	-	-	653,746
16,620	-	-	16,620	-	9,185	25,805
-	-	-	20,968	-	-	20,968
-	-	-	77,345	-	7,185	84,530
-	821	376	103,075	-	9,575	112,650
-	-	1,519	30,520	-	2,835	33,355
-	-	-	36,467	-	3,388	39,855
-	-	-	12,261	39,955	3,338	55,554
-	-	-	11,058	197,225	3,011	211,294
-	-	-	8,550	2,539	3,019	14,108
-	-	-	3,906	-	1,064	4,970
-	-	-	20,948	-	5,703	26,651
-	-	13,333	122,238	-	-	122,238
-	-	-	29,942	138,853	10,574	179,369
-	-	-	16,248	8,509	340	25,097
-	-	-	9,975	-	176	10,151
-	-	-	10,337	4,377	4,733	19,447
-	-	-	153,854	-	14,292	168,146
<u>209,804</u>	<u>94,022</u>	<u>66,571</u>	<u>106,348</u>	<u>-</u>	<u>(106,348)</u>	<u>-</u>
<u>301,689</u>	<u>808,181</u>	<u>151,446</u>	<u>3,482,457</u>	<u>678,929</u>	<u>313,843</u>	<u>4,475,229</u>
-	-	-	177,740	15,327	7,250	200,317
2,547,627	84,670	679,499	18,639,616	-	-	18,639,616
<u>71</u>	<u>-</u>	<u>-</u>	<u>730,424</u>	<u>-</u>	<u>-</u>	<u>730,424</u>
<u>2,547,698</u>	<u>84,670</u>	<u>679,499</u>	<u>19,547,780</u>	<u>15,327</u>	<u>7,250</u>	<u>19,570,357</u>
<u>\$ 2,849,387</u>	<u>\$ 892,851</u>	<u>\$ 830,945</u>	<u>\$ 23,030,237</u>	<u>\$ 694,256</u>	<u>\$ 321,093</u>	<u>\$ 24,045,586</u>

Feeding South Dakota  
Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ 509,803	\$ 3,240,115
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	234,496	168,146
Gain on sale of fixed assets	(26,542)	(311,368)
Bad debt expense	-	1,082
Unrealized loss on investments	26,151	51,929
Change in beneficial interest in assets	11,264	10,692
Change in discount on contributions receivable	(1,454)	12,116
Commodities received	(2,111,050)	(2,417,412)
In-kind donations received	(18,968,686)	(16,903,910)
In-kind donations of fixed assets	(62,997)	(36,276)
Food distributed to agencies	20,283,328	18,639,616
Spoilage/due date disposals/waste	842,820	730,424
In-kind goods and services	186,489	200,317
Contributions restricted to building projects	(249,750)	(640,050)
Changes in operating assets and liabilities		
Accounts and grants receivable and promises to give	(201,088)	(117,415)
Purchased food inventory	(293,718)	(72,090)
Prepaid expenses	6,487	(13,593)
Cash temporarily restricted by donors	(72,075)	(62,204)
Accounts payable	(22,998)	70,156
Accrued expenses	26,534	26,652
Net Cash from Operating Activities	117,014	2,576,927
Investing Activities		
Purchase of fixed assets	(5,802,687)	(1,549,279)
Proceeds from sale of fixed assets	1,476,849	545,095
Earnest money deposits held	-	50,000
Purchase of investments	(496,817)	(271,223)
Proceeds from sale of investments	1,110,056	218,069
(Withdrawal) addition to cash restricted to building project	2,007,584	(1,142,003)
Contributions restricted to endowment	-	(10,000)
Net Cash used for Investing Activities	(1,705,015)	(2,159,341)
Financing Activities		
Collection of contributions restricted to building	422,926	148,858
Net Change in Cash and Cash Equivalents	(1,165,075)	566,444
Cash and Cash Equivalents, Beginning of Year	1,660,178	1,093,734
Cash and Cash Equivalents, End of Year	\$ 495,103	\$ 1,660,178
Supplemental Disclosure of Cash Flow Information and Non-cash Investing and Financing Activity		
Accounts payable for property and equipment	\$ 775,333	\$ 135,157

## **Note 1 - Organization and Summary of Significant Accounting Policies**

### **Organization**

The Organization is a South Dakota nonprofit corporation which assists with emergency food needs for local families and individuals, supplies on-site programs with reclaimed food, and collects and redistributes food to agencies throughout South Dakota.

### **Cash and Cash Equivalents**

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

### **Receivables and Credit Policies**

Accounts and grant receivables are stated at the amount management expects to collect from outstanding balances. Due to the nature of the receivables, they are non-interest bearing. Payments of receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. If accounts become uncollectible, they are charged to expense when the determination is made.

### **Promises to Give**

Feeding South Dakota reports unconditional promises to give as contributions. If outstanding contributions are expected to be collected in less than one year, they are recorded at the estimated amount to be ultimately realized. If outstanding contributions are to be paid to the organization over a period of years, they are recorded at the present value of their estimated cash flows. Promises to give amounts are reflected net of an allowance for uncollectible amounts based on management's judgment, past payment experience and other relevant factors.

### **Food Inventory**

The Organization maintains an inventory consisting of donated and purchased food items. The donated product received and distributed by the Organization during the year has been valued and recorded in the accompanying financial statements at the estimated weighted average wholesale amount per pound as determined by Feeding America, a national consortium of regional food banks. Product is tracked using the first-in, first-out method.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment gain/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.



**Fixed Assets**

Land, buildings, and equipment purchases over \$1,000 are capitalized by the Organization and are recorded at cost. The fair value of donated fixed assets is similarly capitalized. Depreciation is computed on the straight-line method using the lives as shown below. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any remaining gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Buildings	40 years
Furniture and equipment	3-20 years
Vehicles	5 years

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations contributions of property and equipment are recorded as unrestricted support.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets available for use in general operations. The Board has approved a policy to designate a three-month operating reserve. At the April 2016 board meeting, the board approved a temporary decrease in the three-month operating reserve requirement until the completion of the sale of the Sioux Falls warehouse. Unrestricted board designated operating reserve as of June 30, 2016 and 2015, was approximately \$1,028,000 and \$1,077,000, respectively.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time.

The Organization reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

**Allocation of Functional Expenses**

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between program and supporting service classifications based upon specific identification where possible and estimates made by management.

### **Contributions**

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Donor restricted contributions whose restrictions are met within the same fiscal year as received are reflected as unrestricted contributions in the statements of activities.

### **Donated Materials and Services**

Donated materials and services are recorded at their estimated fair value if they enhance the Organization's nonfinancial assets or require specialized skills that the Organization would normally purchase if not provided by donation. Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

### **Fund Raising Costs**

Fund raising costs are expensed as incurred.

### **Income Taxes**

Feeding South Dakota is a nonprofit organization other than a private foundation that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization received its permanent 501(c)(3) status in February 1984. Contributions to the Organization are eligible as deductible charitable contributions for federal income tax purposes. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Feeding South Dakota believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and those estimates could be material.

### **Employee Benefits**

The cost of employee benefits and compensated leave are accrued as they are vested to the employee.

### **Financial Instruments and Credit Risk**

Feeding South Dakota manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market funds. To date, Feeding South Dakota has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies, organizations and other individuals supportive of Feeding South Dakota's mission.

### **Fair Value Measurements**

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that Feeding South Dakota can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, Feeding South Dakota develops inputs using the best information available in the circumstances.

### **Shipping and Handling Costs**

Transportation costs billed to customers is considered sales revenue and related transportation costs are included in program expenses.

### **Reclassifications**

Certain fiscal 2015 amounts have been reclassified to conform to the 2016 financial statement presentation. The reclassifications had no impact on previously reported net assets.

**Note 2 - Promises to give**

The following summarizes promises to give at June 30, 2016 and 2015:

	2016	2015
South Dakota Cattlemen's Foundation	\$ 212,000	\$ 173,184
Capital campaign	329,251	502,427
Other	7,596	-
Total contributions receivable	548,847	675,611
Less discount to net present value at 5%	(10,662)	(12,116)
Net contributions receivable	\$ 538,185	\$ 663,495

At June 30, 2016 and 2015, one and two donors accounted for approximately 39% and 40% of total contributions receivable.

The following summarizes scheduled receipts of contributions receivable at June 30, 2016.

<u>Due by June 30:</u>	
2017	\$ 404,363
2018	88,484
2019	32,000
2020	19,000
2021	5,000
	\$ 548,847

**Note 3 - Investments**

The following summarizes investments by major investment type at June 30, 2016 and 2015:

	2016	2015
Certificates of deposit	\$ 251,163	\$ 100,973
Mutual funds - equity securities	152,208	478,428
Mutual funds - debt securities	-	361,829
Debt securities	129,399	25,786
Common stock	-	205,144
	532,770	1,172,160
Long term investments	(350,499)	(100,973)
Investments, current	\$ 182,271	\$ 1,071,187

Net investment return consists of the following for the years ended June 30, 2016 and 2015:

	2016	2015
Interest and dividends	\$ 45,613	\$ 50,469
Unrealized loss	(26,151)	(51,929)
	\$ 19,462	\$ (1,460)

**Note 4 - Beneficial Interest in Assets Held by Community Foundations**

**Agency Fund**

During 2012, the Organization established various permanent endowment funds (the Funds) with Sioux Falls Area Community Foundation, Black Hills Area Community Foundation and South Dakota Community Foundation and named itself beneficiary. The Organization granted variance power to the community foundations which allows them to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the respective community foundation’s Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. In addition, the Organization is the beneficiary of a legacy gift which is invested with Sioux Falls Area Community Foundation and to which the donor did not grant variance power. The Funds are held and invested by the community foundations for the benefit of Feeding South Dakota, and are reported at fair value in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. The aggregate current market value of such transfers, plus income or losses and less distributions and fees was \$355,811 and \$367,075 at June 30, 2016 and 2015, respectively, and is reflected in the Organization's assets as beneficial interest in assets held by community foundations.

**Designated Fund**

In December 2014, a \$1,000,000 endowment fund was established by an outside donor with the South Dakota Community Foundation (“Foundation”) that names Feeding South Dakota as the designated beneficiary of distributions from the endowment. Distributions to the Organization are in accordance with distribution policies for permanent funds adopted by the Foundation. The endowment represents restricted net assets of the Foundation, and the Organization recognizes unrestricted revenue from the endowment as it is received. The balance of the fund with the Foundation was \$934,527 and \$993,633 as of June 30, 2016 and 2015, respectively.

**Note 5 - Fair Value of Assets and Liabilities**

Assets measured at fair value on a recurring basis at June 30, 2016 and 2015, are as follows:

	2016	2015
Certificates of deposit	\$ 251,163	\$ 100,973
Beneficial interest in assets held by community foundations	355,811	367,075
Mutual funds - equity securities	152,208	478,428
Mutual funds - debt securities	-	361,829
Debt securities	129,399	25,786
Common stock	-	205,144
<b>Total assets</b>	<b>\$ 888,581</b>	<b>\$ 1,539,235</b>

The related fair values of these assets are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>June 30, 2016</b>			
Certificates of deposit	\$ -	\$ 251,163	\$ -
Beneficial interest in assets held by community foundations	-	-	355,811
Mutual funds - equity securities	152,208	-	-
Debt securities	-	129,399	-
	<b>\$ 152,208</b>	<b>\$ 380,562</b>	<b>\$ 355,811</b>
<b>June 30, 2015</b>			
Certificates of deposit	\$ -	\$ 100,973	\$ -
Beneficial interest in assets held by community foundations	-	-	367,075
Mutual funds - equity securities	478,428	-	-
Mutual funds - debt securities	361,829	-	-
Debt securities	-	25,786	-
Common stock	205,144	-	-
	<b>\$ 1,045,401</b>	<b>\$ 126,759</b>	<b>\$ 367,075</b>

A portion of the Organization's investment assets are classified as Level 1 because they are comprised of open-ended mutual funds or common stocks with readily determinable fair values based on daily redemption values. The fair value of certificates of deposit and corporate debt securities are determined by reference to similar assets that are directly or indirectly observable in the marketplace, and are classified within Level 2. The fair value of the Organization's beneficial interest in assets held by community foundations is based on the fair value of fund investments as reported by the community foundations. These are considered to be Level 3 measurements.

Following is a reconciliation of activity for assets required to be measured at fair value that are based upon significant unobservable (non-market) information for the years ended June 30, 2016 and 2015:

Balance at June 30, 2014	\$ 367,767
Contributions	10,000
Adjustments to fair market value, net of distributions	<u>(10,692)</u>
Balance at June 30, 2015	367,075
Adjustments to fair market value, net of distributions	<u>(11,264)</u>
Balance at June 30, 2016	<u><u>\$ 355,811</u></u>

**Note 6 - Assets Held for Sale**

On September 11, 2015, the Organization entered into a purchase agreement to sell its real property located at 3511 N. 1<sup>st</sup> Avenue in Sioux Falls, South Dakota. Assets held for sale for this property on June 30, 2016 totaled \$465,092. The closing date of the sale of this property occurred on July 18, 2016. The estimated gain on the sale of these assets was approximately \$482,000.

On August 22, 2014, Feeding South Dakota entered into a purchase agreement to sell its real property located at 2900 Airport Road in Pierre, South Dakota. The closing of the sale was completed on February 22, 2016. The realized gain on the sale of these assets totaled approximately \$142,000. Assets held for sale as of June 30, 2015 were \$470,094 and were included on the statements of financial position.

**Note 7 - Contingent Liability**

The Organization received the following zero interest rate funds from the Department of Community Development of the City of Sioux Falls, South Dakota:

Repair or replacement of:		
Roof	January 18, 1991	\$ 54,500
Elevator	August 6, 1992	71,800
Freezer	June 21, 1999	<u>40,000</u>
		<u><u>\$ 166,300</u></u>

These funds were recognized as income in the periods received. The principle sums as specified in the agreements, shall not become due and payable until the occurrence of one of the following events: (1) conveyance of said property by the Organization, (2) voluntary or involuntary relinquishment of said property by the Organization, or (3) termination of the agreement by the City for noncompliance. The related property is secured by mortgages. The original agreements were amended in May 2016 and transferred to the new property.

**Note 8 - Restrictions on Net Assets**

Temporarily restricted net assets represent donor restricted funds for specific program expenses and fixed asset acquisitions. Following are the temporarily restricted net assets available for the following purposes:

	2016	2015
BackPack program	\$ 698,867	\$ 737,395
Mobile food pantry	60,000	6,090
Capital campaign	-	2,362,738
Sioux Falls food pantry	21,416	32,180
Protein food purchases	213,300	178,154
Delivery truck	160,000	-
Other	127,336	29,547
	\$ 1,280,919	\$ 3,346,104

Net assets were released from restrictions as follows during the years ending June 30, 2016 and 2015:

	2016	2015
Satisfaction of purpose restrictions		
Sioux Falls food pantry	\$ 10,765	\$ 10,031
Mobile food pantry	-	23,908
BackPack program	38,528	-
Capital campaign	2,362,738	-
Other	17,727	25,254
	\$ 2,429,758	\$ 59,193

**Note 9 - Commitments**

In December 2015, the Organization entered into an agreement with a construction contractor related to the construction of a facility on land that was purchased during the year in Minnehaha County. The uncompleted contract balance as of June 30, 2016 was approximately \$157,000. Construction in process was \$4,623,626 at June 30, 2016, which includes purchased land of \$773,900. Construction in process at June 30, 2015 was \$262,862 and was primarily for the construction of the Pierre facility.

**Note 10 - Retirement Plan**

The Organization has established a 401(k) retirement plan that covers all employees who meet eligibility requirements. Employees are fully vested on all amounts contributed to the plan. The plan provides for a discretionary matching contribution. For the years ended June 30, 2016 and 2015, the Organization has elected to match contributions up to 3% of compensation for each eligible employee. For the years ended June 30, 2016 and 2015, this contribution was \$41,606 and \$35,134, respectively.



**Note 11 - Member Agreement**

The Organization renewed its member agreement with Feeding America on October 1, 2014, which supersedes the Feeding America contract entered into by and between Feeding South Dakota and Feeding America dated October 1, 2009. The purpose of the contract is to establish Feeding South Dakota's membership in the national Network of Feeding America, provide definition and guidance for the business relationship between Feeding South Dakota and Feeding America, foster a cooperative spirit, and improve the capacity of the Network to provide solutions to the problem of hunger in America.

**Note 12 - In Kind Donations**

Donated goods and services received consisted of the following for 2016 and 2015:

	2016	2015
Food and food discounts	\$ 18,838,524	\$ 16,703,493
Commodities	2,111,050	2,417,412
Food transportation	-	53,157
Fundraising	15,874	15,327
Professional services	95,762	7,250
Media	-	87,726
Capital items	62,997	36,276
Miscellaneous	18,526	24,517
Storage	-	12,440
	\$ 21,142,733	\$ 19,357,598

**Note 13 - Subsequent Event**

Subsequent events have been evaluated through October 13, 2016, the date which the financial statements were available to be issued.

On July 18, 2016 the Organization sold its real property located at 3511 N. 1<sup>st</sup> Avenue for \$950,000. The realized gain on the sale of these assets totaled approximately \$482,000. The Organization has relocated the Sioux Falls operations to its newly constructed facility located at 4701 N. Westport Ave.



Federal Awards Reports in Accordance  
with the Uniform Guidance  
June 30, 2016

## Feeding South Dakota

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*..... 1

Independent Auditor’s Report on Compliance for Its Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance..... 3

Schedule of Expenditures of Federal Awards..... 6

Schedule of Findings and Questioned Costs..... 7

Summary Schedule of Prior Year Audit Findings ..... 10



**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 Board of Directors and Management of  
Feeding South Dakota  
Sioux Falls, 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, the financial statements of Feeding South Dakota (the Organization), which comprise the statement of financial position as of June 30, 2016, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Feeding South Dakota's internal control over financial reporting (internal control) to determine the 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 Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization’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 determination of financial statement amounts. 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.

*Eide Sallee LLP*

Sioux Falls, South Dakota  
October 13, 2016



**Independent Auditor’s Report on Compliance for Its Major Federal Program;  
Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures  
of Federal Awards Required by the Uniform Guidance**

The Board of Directors and Management  
Feeding South Dakota  
Sioux Falls, South Dakota

**Report on Compliance for Each Major Federal Program**

We have audited Feeding South Dakota’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization’s major federal program for the year ended June 30, 2016. The Organization’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s Responsibility**

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the compliance for the Organization’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Organization’s compliance.

**Opinion on Its Major Federal Program**

In our opinion, Feeding South Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2016.

## **Report on Internal Control over Compliance**

Management of Feeding South Dakota is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance 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 and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2016-001 and 2016-002 that we consider to be significant deficiencies.

The Organization's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of Feeding South Dakota as of and for the year ended June 30, 2016, and the related notes to the financial statements. We issued our report thereon dated October 13, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Eide Bailly LLP*

Sioux Falls, South Dakota  
October 13, 2016



Feeding South Dakota  
Schedule of Expenditures of Federal Awards  
Year Ending June 30, 2016

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Agriculture</u>				
Passed through the South Dakota Department of Education				
Food Distribution Cluster				
Commodity Supplemental Food Program (Administrative Costs)	10.565	12017510	\$ 207,563	\$ 31,864
Commodity Supplemental Food Program (Food Commodities)	10.565	12017510	1,424,186	1,416,874
Emergency Food Assistance Program (Administrative Costs)	10.568	12017510	7,578	-
Emergency Food Assistance Program (Food Commodities)	10.569	12017510	730,946	430,700
Total Food Distribution Cluster			2,370,273	1,879,438
<u>Department of Homeland Security</u>				
Emergency Food and Shelter National Board Program	97.024	FEMA Phase 32	17,574	-
Total Federal Financial Assistance			\$ 2,387,847	\$ 1,879,438

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Feeding South Dakota. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Feeding South Dakota received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as expenditure when it is paid to the subrecipient

**Note 2 - Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations or Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization’s summary of significant accounting policies is presented in Note 1 in the Organization’s basic financial statements.

Feeding South Dakota has not elected to use the 10% de minimis cost rate.

**Note 3 - Nonmonetary Assistance**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2016, the Organization had food commodities totaling \$390,326 in inventory.

**Section I - Summary of Auditor's Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

**FEDERAL AWARDS**

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular 2 CFR 200.516:	Yes

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA number</u>
Food Distribution Cluster	10.565, 10.568, and 10.569
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

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**Section II - Financial Statement Findings**

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None reported

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**Section III - Federal Award Findings and Questioned Costs**

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**2016-001**      **Passed-through South Dakota Department of Education**  
**CFDA 10.565, 10.569, 12017510, 10/1/2014 – 9/30/2015 and 10/1/2015 – 9/30/2016**  
**Food Distribution Cluster**

**Procurement, Suspension and Debarment**  
**Significant Deficiency in Internal Control over Compliance**

*Criteria:* Under 2 CFR 180.220, the Organization is required to have procedures in place to ensure they are not making subawards to parties that are suspended or debarred.

*Condition:* Based upon a sample test of subrecipients, in three instances the subrecipient was not verified as not being suspended or debarred.

*Cause:* The Organization revised the subaward agreements and site monitoring checklists to include a certification by the subrecipient that they are not suspended or debarred, however the new forms were not used in these three instances.

*Effect:* Lack of compliance with designed controls results in a possibility that the Organization would not be able to detect and correct noncompliance in a timely manner.

*Questioned Costs:* None reported.

*Context/Sampling:* A nonstatistical sample of eleven subrecipients out of fifty-three total subrecipients were selected for testing.

*Repeat Finding from Prior Year:* Yes, prior year finding 2015-002.

*Recommendation:* We recommend that management review subrecipient files to ensure that all have been verified as not being suspended or debarred. If the new form has not been used, the Organization could check the subrecipients against the Excluded Parties List System.

*Management's Response:* Management is in agreement.

**2016-002      Passed-through South Dakota Department of Education  
CFDA 10.565, 10.569, 12017510, 10/1/2014 – 9/30/2015 and 10/1/2015 – 9/30/2016  
Food Distribution Cluster**

**Subrecipient Monitoring  
Significant Deficiency in Internal Control over Compliance**

*Criteria:* Under 2 CFR 200.331, the Organization is required to clearly identify to the subrecipient the following elements as Federal Award Identification of the subaward:

- i) Subrecipient name;
- ii) Subrecipient's unique entity identifier;
- iii) Federal Award Identification Number (FAIN);
- iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;
- v) Subaward Period of Performance Start and End Date;
- vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
- vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
- viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
- xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
- xii) Identification of whether the award is R&D; and
- xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).

*Condition:* The Organization's subawards did not include all required elements above. Specifically the subawards did not include the period of performance start and end date.

*Cause:* The Organization was not aware of the new requirements under the Uniform Guidance.

*Effect:* The Organization did not provide all required elements of the subaward to the subrecipients.

*Questioned Costs:* None reported.

*Context/Sampling:* A nonstatistical sample of eleven subrecipients out of fifty-three total subrecipients were selected for testing.

*Repeat Finding from Prior Year:* No

*Recommendation:* We acknowledge the Organization updates the subawards annually on the date the subrecipient began involvement with the federal program. We recommend that management review subawards to ensure that all required elements are included and communicated to subrecipients.

*Management's Response:* Management is in agreement.

**Federal Award Findings**

**2015-001      Passed-through South Dakota Department of Education  
CFDA 10.565, 10.568, 10.569, 12017510, 10/1/2014 – 9/30/2015 and 10/1/2013 – 9/30/2014  
Food Distribution Cluster**

**Allowable Costs  
Significant Deficiency in Internal Control over Compliance**

*Initial Fiscal Year Finding Occurred: 2011*

*Finding Summary:* Management could not provide adequate documentation for one employee's time charged to the grant meeting the requirements above. Records showing the hours worked on the federal program were provided, however the records did not account for the total hours worked (both federal and non-federal) by the employee.

*Status:* Corrective action was taken

**2015-002      Passed-through South Dakota Department of Education  
CFDA 10.565, 10.568, 10.569, 12017510, 10/1/2014 – 9/30/2015 and 10/1/2013 – 9/30/2014  
Food Distribution Cluster**

**Procurement, Suspension and Debarment  
Significant Deficiency in Internal Control over Compliance**

*Initial Fiscal Year Finding Occurred: 2015*

*Finding Summary:* The Organization was not verifying subrecipients for suspension or debarment prior to passing on federal funds and commodities.

*Status:* Similar items were noted in current year. Finding will be repeated. See Finding 2016-001.

**Federal Award Findings**

**2015-003      Passed-through South Dakota Department of Education  
CFDA 10.565, 10.568, 10.569, 12017510, 10/1/2014 – 9/30/2015 and 10/1/2013 – 9/30/2014  
Food Distribution Cluster**

**Subrecipient Monitoring  
Significant Deficiency in Internal Control over Compliance**

*Initial Fiscal Year Finding Occurred: 2014*

*Finding Summary:* During the year, the Organization requested certification from subrecipients as to whether they had or were required to have an A-133 audit and performed follow-up procedures to ensure that all certifications were received. When the certification indicated that the entity has an A-133 audit performed, the Organization requested a copy of the audit report. For one of the sites selected for testing, the audit report was requested, received and reviewed for audit findings. However, the site's schedule of expenditures of federal awards did not include the pass-through funds from the Organization and the Organization's internal controls did not detect it. In addition, the Organization did not obtain the DUNS numbers for subrecipients prior to making the subawards.

*Status:* Corrective action was taken for the Single Audit certification. The DUNS number requirement for subrecipients is no longer included in the compliance supplement as a required item and therefore will not be repeated.

Cognizant or Oversight Agency for Audit: Department of Agriculture

Feeding South Dakota respectfully submits the following corrective action plan for the year ended June 30, 2016.

Name and address of independent public accounting firm: Eide Bailly LLP  
200 East 10th Street, Suite 500  
Sioux Falls, SD 57104

Audit Period: July 1, 2015 to June 30, 2016

The findings from the 2016 schedule of findings and questioned costs are discussed below.

### **Findings Relating to Federal Awards**

**2016-001 Passed-through South Dakota Department of Education  
CFDA 10.565, 10.569, 12017510, 10/1/2014 – 9/30/2015 and 10/1/2015 – 9/30/2016  
Food Distribution Cluster**

**Procurement, Suspension and Debarment  
Significant Deficiency in Internal Control over Compliance**

Based upon a sample test of subrecipients, in three instances the subrecipient was not verified as not being suspended or debarred.

Responsible Individuals: Chad Olson, Russ Hofeldt and Diane Briest

Corrective Action Plan: Management will review procedures to ensure that agencies receiving commodity products for distribution to program recipients have certified their agency has not been suspended or debarred from doing business with the federal government.

Anticipated Completion Date: October 31, 2016

**2016-002 Passed-through South Dakota Department of Education  
CFDA 10.565, 10.569, 12017510, 10/1/2014 – 9/30/2015 and 10/1/2015 – 9/30/2016  
Food Distribution Cluster**

**Subrecipient Monitoring  
Significant Deficiency in Internal Control over Compliance**

The Organization's subawards did not include all required elements. Specifically the subawards did not include the period of performance start and end date.

Responsible Individuals: Chad Olson, Russ Hofeldt and Diane Briest

Corrective Action Plan: Management will review subawards and make revisions to ensure that all required elements are included and communicated to subrecipients.

Anticipated Completion Date: October 31, 2016