

**SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND**

AUDIT REPORT

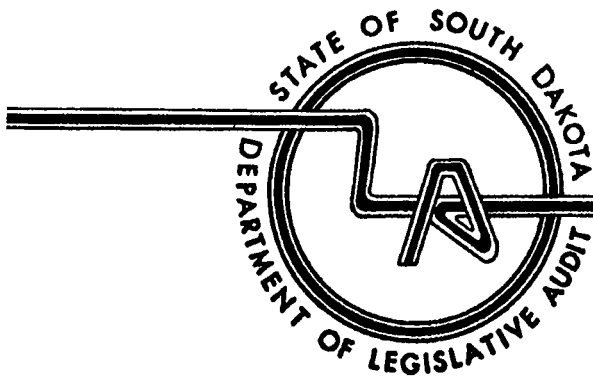
Fiscal Year Ended June 30, 2015



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

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
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427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

The Honorable Dennis Daugaard
Governor of South Dakota

and

South Dakota Board of Economic Development

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota Revolving Economic Development and Initiative Fund (REDI Fund), an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the REDI Fund's basic financial statements and have issued our report thereon dated October 2, 2015.

Internal Control Over Financial Reporting

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

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

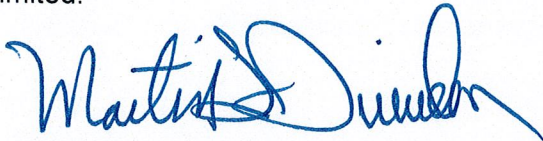
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Dakota Board of Economic Development's REDI Fund 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. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

October 2, 2015



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

South Dakota Board of Economic Development

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Revolving Economic Development and Initiative Fund (REDI Fund), an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 the REDI Fund, an enterprise fund of the State of South Dakota, as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standards

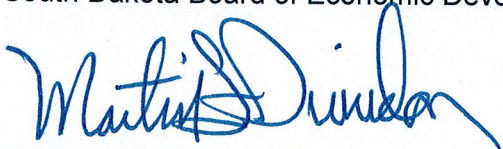
As described in Note 2.J. to the financial statements, the South Dakota Board of Economic Development implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. As discussed in Note 2.J. to the financial statements, the implementation of these standards resulted in a restatement of beginning net position. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the REDI Fund and do not purport to, and do not, present fairly the financial position of the State of South Dakota, as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2015 on our consideration of the South Dakota Board of Economic Development'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 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 South Dakota Board of Economic Development's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

October 2, 2015

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
STATEMENT OF NET POSITION
June 30, 2015

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2.C.)	\$ 74,309,858
Accounts Receivable – Bankwest	116,360
Due From Other Funds (Note 2.I.)	500,000
Loan Interest Receivable	36,456
Investment Income Receivable	188,223
Loans Receivable (Net) (Note 2.E.)	8,866,171
Total Current Assets	84,017,068

Noncurrent Assets:

Due From Other Funds (Note 2.I.)	500,000
Equipment (Net) (Note 2.D.)	1,750
Net Pension Asset	136,978
Loans Receivable (Net) (Note 2.E.)	25,744,345
Total Noncurrent Assets	26,383,073

TOTAL ASSETS	110,400,141
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DEFERRED OUTFLOWS OF REOURCES

Deferred Outflows of Resources-Related to Pensions	121,211
TOTAL DEFERRED OUTFLOWS OF RESOURCES	121,211

LIABILITIES

Current Liabilities:

Accounts Payable	14,262
Wages Payable	25,507
Accrued Leave Liability (Note 5)	12,876
Due to Other Funds	7,691
Total Current Liabilities	60,336

Noncurrent Portion of Accrued Leave Liability (Note 5)	11,433
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TOTAL LIABILITIES	71,769
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources-Related to Pensions	158,643
TOTAL DEFERRED INFLOWS OF RESOURCES	158,643

NET POSITION

Investment in Capital Assets	1,750
Restricted for Pension Benefits	99,546
Unrestricted	110,189,644
	110,189,644

TOTAL NET POSITION	\$ 110,290,940
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The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2015

Operating Revenue:	
Interest Income on Loans	\$ 819,197
Pension Revenue	5,786
Other Income	188,098
Total Operating Revenue	<u>1,013,081</u>
Operating Expenses:	
Personal Services and Benefits	153,390
Travel	6,496
Contractual Services	259,025
Supplies and Materials	17,658
Depreciation Expense (Note 2.D.)	1,800
Provision for Loan Loss (Recovery)	(321,985)
Total Operating Expense	<u>116,384</u>
Operating Income	896,697
Nonoperating Revenue (Expense):	
Investment Income	710,892
Services Provided to Others (Note 2.F.)	(261,730)
Other Expenses	(79,390)
Total Nonoperating Revenue (Expense)	<u>369,772</u>
Income Before Transfers	1,266,469
Transfers:	
Transfers in – Ethanol Fuel Fund (Note 2.H.)	2,000,000
Total Transfers	<u>2,000,000</u>
Change in Net Position	3,266,469
Beginning Net Position (Restated, Note 2.J.)	<u>107,024,471</u>
End of Year Net Position	<u>\$ 110,290,940</u>

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

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2015

Cash Flows From Operating Activities:		
Receipts for Loan Repayments	\$ 19,273,843	
Payments for Loans Originated	(13,845,968)	
Receipts from Customers and Users	188,098	
Payments for Employee Services and Benefits	(189,046)	
Payments for Interfund Services Used	(68,232)	
Payments to Suppliers and for Claims	(219,450)	
Net Cash Provided (Used) by Operating Activities	<u>5,139,245</u>	5,139,245
Cash Flows From Noncapital Financing Activities:		
Transfers In – Ethanol Fuel Fund	2,000,000	
Transfers In - Building South Dakota	500,000	
Services Provided to Others	(261,730)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>2,238,270</u>	2,238,270
Cash Flows From Investing Activities:		
Pooled Investment Income	708,748	
Investment Costs	(79,391)	
Net Cash Provided (Used) by Investing Activities	<u>629,357</u>	629,357
Net Increase in Cash and Cash Equivalents During the Fiscal Year		8,006,872
Cash and Cash Equivalents at Beginning of Year		<u>66,302,986</u>
Cash and Cash Equivalents at End of Year		<u>\$ 74,309,858</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		\$ 896,697
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation/Amortization Expense	1,800	
Decrease/(Increase) in Assets:		
Loans Receivable	4,100,614	
Loan Interest Receivable	99,240	
Accounts Receivable – Bankwest	86,838	
Net Pension Asset	(83,373)	
Decrease/(Increase) Deferred Outflows of Resources:	(101,262)	
Increase/(Decrease) in Liabilities:		
Accounts Payable	446	
Wages Payable	(2,985)	
Grants Payable	(4,000)	
Accrued Leave Liability	(12,465)	
Due to Other Funds	(948)	
Increase/(Decrease) Deferred Inflows of Resources:	158,643	
Total Adjustments		<u>4,242,548</u>
Net Cash Provided (Used) by Operating Activities		<u>\$ 5,139,245</u>

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

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

1. AUTHORIZING LEGISLATION

The South Dakota Revolving Economic Development and Initiative Fund (REDI Fund) was created in 1987 by an act of the South Dakota Legislature. The REDI Fund was established for the purpose of making loans for economic development. The REDI Fund is a fund of the State of South Dakota and is administered by the Governor's Office of Economic Development (GOED) with oversight provided by the Board of Economic Development.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

The REDI Fund is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises. The REDI Fund is a part of the State of South Dakota and, as such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

B. Basis of Accounting

The REDI Fund follows the accrual basis of accounting. This method of accounting recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings and services provided to others, are reported as nonoperating.

C. Cash and Investments

Cash includes cash on hand and a participating interest in the State's internal investment pool held by the State Treasurer and is used for the purposes of reporting cash flows. The amount held in the State's internal investment pool is reported at fair value.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by writing to the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501 or by calling (605)773-3595.

D. Capital Assets

Assets are capitalized based on policies established by the South Dakota Bureau of Finance and Management. Capital assets are capitalized at cost or estimated historical

cost, if the original cost is unavailable. Equipment is capitalized when the cost of individual items is \$5,000 or more. Depreciation on capital assets is computed using the straight line method over the estimated useful lives of the assets, which is 3 to 10 years for all assets. When assets are disposed of, the costs and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the results from operations in the period of disposal.

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

	Balance 7/01/14	Increases	Decreases	Balance 6/30/15
Equipment	\$ 27,599	\$ 0	\$ 13,199	\$ 14,400
Accumulated Depreciation	24,049	1,800	13,199	12,650
Capital Assets, Net	<u>\$ 3,550</u>	<u>\$ 1,800</u>	<u>\$ 0</u>	<u>\$ 1,750</u>

E. Loans Receivable

Loans receivable at June 30, 2015, is shown net of the allowance for doubtful loans of \$875,941.

F. Services Provided to Others

Earnings on the REDI Fund may be used for the administrative costs of the Division of Finance of the GOED per SDCL 1-16G-24. Earnings used for the administrative costs of the Division of Finance of the GOED totaled \$261,730 for the year ending June 30, 2015.

G. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

H. Transfers

During the 2011 legislative session, the legislature designated \$2,000,000 to the REDI Fund from the Ethanol Fuel Fund for fiscal years 2012 to 2016.

I. Due From Other Funds

During the 2014 legislative session, the legislature appropriated \$30,000,000 to the Building South Dakota Fund, of which no more than \$10 million can be distributed annually. Per SDCL 1-16G-48 the REDI Fund will receive 5% of the amount distributed. A current receivable in the amount of \$500,000 and a noncurrent receivable in the amount of \$500,000 have been reported for the year ending June 30, 2015 for the amounts to be received in fiscal years 2016 and 2017, respectively.

J. Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and in November 2013 GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. The requirements of

this statement are effective for financial statements for fiscal years beginning after June 15, 2014. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions.

Accounting changes adopted to conform to the provisions of this Statement were applied retroactively by restating financial statements for all periods presented. For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. The REDI Fund contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

Beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of July 1, 2015 as follows:

Net position June 30, 2014, as previously reported	\$ 106,950,917
Restatement for pension accounting:	
Net pension asset	53,605
Pension related deferred outflows of resources	<u>19,949</u>
Net position July 1, 2014, as restated	<u>\$ 107,024,471</u>

K. Restricted Net Position

The net position associated with reporting the REDI Fund's collective share of the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions as discussed in note 2.J. was reported as restricted net position as the assets have externally imposed constraints placed on them by the SDRS.

3. SOUTH DAKOTA JOBS GRANT PROGRAM ACTIVITY

During the 2013 legislative session, the South Dakota Jobs Grant Program was created within the REDI Fund. An original deposit of \$350,000 was deposited in the fiscal year ending June 30, 2013. The Board of Economic Development may provide grants to project owners for new or expanded facilities with project costs less than \$20,000,000 or for equipment upgrades with project costs less than \$2,000,000.

The following is a breakdown of the activity in the subfund for fiscal year 2015 and its corresponding net position at June 30, 2015:

	South Dakota Jobs Subfund
Beginning Net Position	\$ 1,822,960
Investment Income	<u>6,321</u>
Ending Net Position	<u>\$ 1,829,281</u>

4. COMMITMENTS

At June 30, 2015, the REDI Fund had the following commitments:

REDI Fund loans approved by the South Dakota
Board of Economic Development but not
disbursed at June 30, 2015 \$ 14,477,037

5. ACCRUED LEAVE LIABILITY

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation, or death will receive payment for one-fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of employee’s annual compensation. The total leave liability of \$24,309 at June 30, 2015, is shown as short and long-term liabilities on the Statement of Net Position.

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued Leave Liability	\$ 36,744	\$ 21,150	\$ 33,585	\$ 24,309	\$ 12,876

6. RETIREMENT PLAN

The GOED participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information for the plan. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605)773-3731. Additionally, the State of South Dakota’s Comprehensive Annual Financial Report (CAFR) will report the State’s proportionate share of the plan. The CAFR can be obtained by writing to the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501 or by calling (605)773-3595.

State law requires employees to contribute 6 percent of their salary to the plan and the employer to contribute an amount equal to the employee’s contribution. The right to receive retirement benefits vests after three years of credited service. The GOED’s contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$21,401, \$21,210, and \$18,698, respectively, equal to the required contributions each year.

At June 30, 2014, SDRS is 107% funded and accordingly has a net pension asset. At June 30, 2015, the GOED reported an asset of \$136,978 for the REDI Fund’s proportionate share of the net pension asset. For the fiscal year ended June 30, 2015, pension revenue of \$5,786 was recorded. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the pension were reported from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 11,590	\$
Changes in assumption	89,415	
Net difference between projected and actual earnings on pension plan investments		158,643
Contributions after the measurement date	<u>20,206</u>	
Total	<u>\$ 121,211</u>	<u>\$ 158,643</u>

7. PUBLIC ENTITY POOL FOR LIABILITY

The GOED is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The GOED is uninsured for property loss. The GOED participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include: 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, 2) coverage of employee medical claims through the State's health insurance program, 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, and 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.