

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

**AUDIT REPORT**

**Fiscal Year Ended June 30, 2018**



**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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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, 2018, 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 September 28, 2018.

**Internal Control Over Financial Reporting**

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

September 28, 2018



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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, 2018, 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, 2018, 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.

### ***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, 2018, 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 Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the REDI Fund's basic financial statements. The listing of the Board of Economic Development Members and the schedules of Loan Portfolio: Loans Approved Fiscal Year 2018, REDI Fund Company Activity and Withdrawn Loans are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the South Dakota Board of Economic Development's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Board of Economic Development's internal control over financial reporting and compliance.



Martin L. Guindon, CPA  
Auditor General

September 28, 2018

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT  
AND INITIATIVE FUND  
STATEMENT OF NET POSITION  
June 30, 2018

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2.C.)	\$ 75,259,933
Accounts Receivable – Bankwest	7,431
Loan Interest Receivable	35,390
Investment Income Receivable	298,517
Loans Receivable (Net) (Note 2.E.)	8,826,848
Total Current Assets	<u>84,428,119</u>

Noncurrent Assets:

Restricted Net Pension Asset	1,514
Noncurrent Portion of Loans Receivable (Net) (Note 2.E.)	30,435,938
Total Noncurrent Assets	<u>30,437,452</u>

TOTAL ASSETS	<u>114,865,571</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources-Related to Pensions	162,747
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>162,747</u>

LIABILITIES

Current Liabilities:

Accounts Payable	12,195
Wages Payable	22,291
Accrued Leave Liability (Note 5)	12,676
Due to Other Funds	8,003
Total Current Liabilities	<u>55,165</u>

Noncurrent Liabilities:

Noncurrent Portion of Accrued Leave Liability (Note 5)	11,200
Total Noncurrent Liabilities	<u>11,200</u>

TOTAL LIABILITIES	<u>66,365</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources-Related to Pensions	29,509
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>29,509</u>

NET POSITION

Restricted for South Dakota Jobs Grant Program	1,978,039
Restricted for Pension Benefits	134,752
Unrestricted	112,819,653
	<u>114,932,444</u>

TOTAL NET POSITION	<u>\$ 114,932,444</u>
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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, 2018

Operating Revenue:	
Interest Income on Loans	\$ 768,185
Other Income	59,172
Total Operating Revenue	<u>827,357</u>
Operating Expenses:	
Personal Services and Benefits	152,911
Travel	5,437
Contractual Services	246,071
Supplies and Materials	22,258
Grants and Subsidies	96,345
Total Operating Expenses	<u>523,022</u>
Operating Income	304,335
Nonoperating Revenue (Expenses):	
Investment Income	189,811
Services Provided to Others (Note 2.F.)	(190,263)
Other Expenses	(14,742)
Total Nonoperating Revenue (Expenses)	<u>(15,194)</u>
Income Before Transfers	289,141
Transfers:	
Transfers In – Building South Dakota (Note 2.H.)	87,462
Total Transfers	<u>87,462</u>
Change in Net Position	376,603
Beginning Net Position	<u>114,555,841</u>
End of Year Net Position	<u>\$ 114,932,444</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, 2018

Cash Flows From Operating Activities:		
Receipts for Loan Repayments	\$	4,293,439
Payments for Loans Originated		(5,713,692)
Receipts from Customers and Users		59,172
Grants and Subsidies - Building South Dakota Funds		(96,345)
Payments for Employee Services and Benefits		(218,819)
Payments for Interfund Services Used		(60,053)
Payments to Suppliers and for Claims		(212,972)
Net Cash Provided (Used) by Operating Activities		(1,949,270)
Cash Flows From Noncapital Financing Activities:		
Transfers In – Building South Dakota Funds		87,462
Services Provided to Others		(190,263)
Net Cash Provided (Used) by Noncapital Financing Activities		(102,801)
Cash Flows From Investing Activities:		
Pooled Investment Income		145,458
Investment Costs		(14,742)
Net Cash Provided (Used) by Investing Activities		130,716
Net Decrease in Cash and Cash Equivalents During the Fiscal Year		(1,921,355)
Cash and Cash Equivalents at Beginning of Year		77,181,288
Cash and Cash Equivalents at End of Year		\$ 75,259,933

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$	304,335
Decrease/(Increase) in Assets:		
Loans Receivable	(2,203,338)	
Loan Interest Receivable	(5,996)	
Accounts Receivable – Bankwest	20,896	
Net Pension Asset	(1,514)	
Decrease/(Increase) Deferred Outflows of Resources:	(34,240)	
Increase/(Decrease) in Liabilities:		
Accounts Payable	1,017	
Wages Payable	(5,151)	
Net Pension Liability	(52,408)	
Accrued Leave Liability	(1,246)	
Due to Other Funds	(276)	
Increase/(Decrease) Deferred Inflows of Resources:	28,651	
Total Adjustments		(2,253,605)
Net Cash Provided (Used) by Operating Activities		\$ (1,949,270)

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, 2018

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. The REDI Fund had no depreciable assets for the year ending June 30, 2018.

#### E. Loans Receivable

Loans receivable at June 30, 2018, 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 \$190,263 for the year ending June 30, 2018.

#### 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

The legislature designated contractor's excise taxes and interest from Building South Dakota projects costing \$20 million or more to be transferred to the Building South Dakota Funds per the 2013 legislative session. An amount of \$87,462 was transferred in for the year ending June 30, 2018 for the South Dakota Jobs portion of the designated funds.

#### I. Pension Reporting

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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. Contributions and net pension asset are recognized on an accrual basis of accounting.

#### J. Net Position

Net Position is classified in the following three components:

- Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.
- Restricted – Consists of net position with constraints placed on their use by either creditors, grantors, contributors, laws or regulations of other governments,

or constraints imposed by law through constitutional or enabling legislation of the State.

- Unrestricted – Consists of net position that does not meet the definition of net investments in capital assets or restricted.

K. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the REDI Fund’s policy to use restricted resources first, and then unrestricted resources as they are needed.

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 2018 and its corresponding restricted net position at June 30, 2018:

	South Dakota Jobs Subfund
Beginning Net Position	\$ 1,964,443
Transfer in – Building South Dakota	87,462
Investment Income	22,479
Grant Expense	(96,345)
Ending Net Position	<u>\$ 1,978,039</u>

4. COMMITMENTS

At June 30, 2018, 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, 2018.....	\$ 26,003,803
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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 \$23,876 at June 30, 2018, is shown as short and long-term liabilities on the Statement of Net Position.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Accrued Leave Liability	\$ 25,121	\$ 30,738	\$ 31,983	\$ 23,876	\$ 12,676

## 6. RETIREMENT

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 Chappelle, 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, 2018, 2017, and 2016 were \$19,276, \$21,585, and \$18,967, respectively, equal to the required contributions each year.

At June 30, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. At June 30, 2018, the GOED reported an asset of \$1,514 for the REDI Fund's proportionate share of the net pension asset. At June 30, 2018, 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	\$ 24,261	\$
Changes of assumption	117,563	
Net difference between projected and actual		
Investment earnings on pension plan investments		29,111
Contribution after the measurement date	18,254	
Changes in proportionate share	2,669	398
Total	<u>\$ 162,747</u>	<u>\$ 29,509</u>

## 7. RISK MANAGEMENT

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 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, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund, and 5) coverage for property loss through the South Dakota Property and Casualty Insurance Company, LLC. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.