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July 31, 2024

TO: Government Operations and Audit Committee

FROM: Mike Kogelmann, CPA
State Government Audit Manager

Subject: Fiscal Year (FY) 2023 Single Audit Overview

Purpose

The following overview is intended to provide the GOAC with a general understanding of the different auditor's reports, financial statements and other information included in the FY2023 State of South Dakota Single Audit Report.

Single Audit

A single audit is an audit which includes both the entity's financial statements and its federal awards. The State's single audit includes an examination of the financial records, internal controls and compliance with laws and regulations.

The audit of the State's financial statements is designed to determine whether the statements are fairly presented in all material respects; and whether the presentation is in accordance with generally accepted accounting principles (GAAP).

Audit Standards

An auditor is required to understand and use various standards and federal laws and regulations in the performance of a Single Audit. The following were used for FY2023. These are discussed further in Attachment 4.

- Single Audit Act
- OMB Uniform Guidance
- GAO Government Auditing Standards
- AICPA Statements on Auditing Standards
- OMB Compliance Supplement
- AICPA Audit and Accounting Guides

Annual Comprehensive Financial Report

The Annual Comprehensive Financial Report (ACFR) is a thorough, detailed presentation of the State's financial position and activities for the fiscal year. The ACFR is presented in three main sections.

- The Introductory Section (Single Audit Report pages 1-10) includes a financial overview, discussion of the State's economy and major initiatives, and the organizational structure for State government.
- The Financial Section (Single Audit Report pages 11-168) includes the independent auditor's report, management's discussion and analysis that provides an introduction, overview, and

analysis of the basic financial statements, the basic financial statements, notes to the basic financial statements, and combining and individual fund financial statements.

- The Statistical Section (Single Audit Report pages 169-190) displays selected unaudited economic, financial trend and demographic information for the state.

Independent Auditor's Report

The Independent Auditor's Report issued by the Department of Legislative Audit (Single Audit Report pages 11-14) provides unmodified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information. An unmodified opinion means, in general, that the audit concluded that the financial statements were presented fairly and accurately.

Government-Wide Financial Statements

The first two financial statements in the ACFR are the government-wide financial statements consisting of a Statement of Net Position (Single Audit Report pages 34-35) and a Statement of Activities (Single Audit Report pages 36-37).

- The government-wide statements provide comprehensive information about the entire government, including all of the governmental funds, proprietary funds, component units, long-term debt, and capital assets.
- The government-wide statements do not include the fiduciary funds, which account for resources the government manages on behalf of others and are not available to support the State's programs.

The Statement of Net Position contains information about what the State owns (assets), what the State owes (liabilities), and what is left after assets are used to satisfy liabilities (net position).

The Statement of Activities contains information about the costs of providing public services (expenses) and resources obtained to finance services (revenues) during the current fiscal year. The statement demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues.

- Direct expenses are those that are clearly identifiable with a specific function.
- Revenues include program revenues classified as; charges for services, operating grants and contributions, and capital grants with the rest being classified as general revenues.

These statements provide comprehensive information about the entire State, excluding fiduciary funds, separated between:

- Governmental Activities. Encompass most of the State's basic services including; general government, education, health, human and social services, transportation, economic resources, and agriculture and natural resources. Revenues from fees, taxes and federal grants finance most of these activities.
- Business-Type Activities. Activities financed in whole or in part by fees charged to external parties for goods or services.
- Discretely Presented Component Units. Entities that are legally separate from but financially accountable to the State or their relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The discretely presented component units include the South Dakota Finance Authority, South Dakota Housing Authority, Science and Technology Authority, South Dakota Ellsworth Development Authority, Higher Education and several others.

Fund Financial Statements

Separate financial statements are provided for governmental funds (Single Audit Report pages 38-41), proprietary funds (Single Audit Report pages 42-45), and fiduciary funds (Single Audit Report pages 46-47).

- Governmental funds include the general fund, special revenue, capital project, debt service and permanent funds.
- Proprietary funds include enterprise and internal service funds.

- Fiduciary funds include pension, private purpose trust and custodial funds.

A further description of the purpose and uses for these fund types is included on Single Audit Report pages 54-56 in the notes to the financial statements. The fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned, or unassigned. A further discussion of these classifications is shown on Attachment 2.

Major governmental and enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into single columns. Additional combining statements for nonmajor funds and for component units can be found on Single Audit Report pages 133-168. The Governmental Accounting Standards Board (GASB) established the criteria to be used in determining the major funds to be reported. The General Fund is always displayed as a major fund.

The major governmental funds are:

- General Fund
- Transportation Fund
- Social Services Federal Fund
- COVID-19 Federal Fund
- Dakota Cement Trust Fund
- Education Enhancement Trust Fund

The major enterprise funds are:

- Lottery Fund
- Clean Water State Revolving Fund
- Drinking Water State Revolving Fund

Measurement Focus and Basis of Accounting

Economic Resource/Accrual Basis of Accounting

The government-wide Statement of Net Position and Statement of Activities along with the proprietary fund, fiduciary fund and component unit statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus is similar to private enterprise reporting and attempts to answer the question of whether the fund's total economic resources have increased or decreased. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Current Financial Resources/Modified Accrual Basis of Accounting

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The current financial resources measurement focus attempts to answer the question of whether there are enough current resources available for spending in the near future. Revenues are recognized as soon as they are both measurable and available. Expenditures are recognized in the period in which the fund liability is incurred except for the long-term portion of certain liabilities such as bonds payable, compensated absences and lease obligations.

Selected Financial Statements

Attachment 1 of this handout provides selected financial statements from the Single Audit Report. I've included explanatory information about what is being presented in the statements and where to find additional note disclosures for certain account balances. Additionally, Attachment 1 pages 9-12 provide a discussion of the differences between the GOAC Blue Book and the amounts reported for two of the funds presented in the ACFR.

Schedule of Expenditures of Federal Awards

Single Audit Report pages 191-230 provide the Schedule of Expenditures of Federal Awards and the Auditor's Report on the schedule. The schedule lists the state's cash basis expenditures and issuances incurred on federal grants and loan program balances.

Internal Control and Compliance Reports

Single Audit Report pages 231-235 provide two auditor's reports regarding internal control and compliance.

- 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

This is the auditor's report on internal controls tested as part of the financial statement audit. The report does not offer an auditor's opinion on the overall design and operation of the government's internal control but provides discussion of any significant deficiencies or the material weaknesses in internal control, instances of noncompliance or other matters that were identified during testing.

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

This is the auditor's report on the results of tests of internal controls over compliance for major federal award programs. The auditor gave an unmodified opinion on the State's compliance with the requirements of major federal programs. The report identifies findings that were considered material weaknesses and significant deficiencies. The determination of major programs is discussed further on Attachment 3.

Findings, Questioned Costs and Corrective Action Plans

Single Audit Report pages 237-266 provides:

1. A summary of the results of the audit of the financial statements and federal awards.
2. Listings of the major federal grant programs tested, the audit reports issued separately, and the other significant areas tested.
3. A listing of the prior and current year audit findings and questioned costs by agency of state government along with agency corrective action plans.

Separately Issued Reports

The following additional audit reports were issued for fiscal year 2023. In addition to the audit of the State's ACFR, the Department of Legislative Audit and Independent Public Accountant (IPA) firms perform audits of federal grants and some of the State's funds, boards and commissions and component units. These reports can be found on the Department of Legislative Audit website.

Issued by Legislative Audit:

REDI Fund
Economic Development Finance Authority
Building Authority
Educational Enhancement Funding Corporation
Lottery
South Dakota Investment Council
S.D. Board of Water and Natural Resources
Clean Water State Revolving Fund
Drinking Water State Revolving Fund
Captive Insurance Companies

Issued by IPAs:

Housing Development Authority
Unemployment Insurance Fund
Science and Technology Authority
Ellsworth Development Authority
South Dakota Retirement System
South Dakota Public Broadcasting
Soybean Research & Promotion Council
Corn Utilization Council
American Dairy Association of South Dakota
South Dakota Wheat Utilization, Research and Market Development Commission

STATE OF SOUTH DAKOTA
STATEMENT OF NET POSITION
June 30, 2023
(Expressed in Thousands)

Governmental Activities encompass most of the State's basic services and are primarily funded through taxes, fees and federal grants. Business-Type Activities are financed in whole or in part by fees charged to external parties for goods and services. Additionally, page 35 presents the State's Discretely Presented Component Units that are included based on the criteria shown on pages 50-53

Includes cash on hand, cash in local banks and cash in the State Treasury. Additional note disclosure is on page 63.

A breakdown of receivables appears in Note 4 on page 77.

Internal balances represent net receivables and payables between funds.

Most investments are managed by the Investment Council. Note disclosure on investments appears on pages 63-76.

Most capital assets are reported at their original cost less the accumulated depreciation. Assets such as land are not depreciated. Examples of infrastructure assets would be highways and bridges. Additional information is presented in the notes on pages 79-82.

Liabilities are shown in order of maturity. A breakdown of what Accounts Payable and Other Liabilities represents is shown in the Notes on Page 77.

The notes on pages 97-109 provide information on long-term liabilities including what they consist of and what the changes were during the year.

Restricted Net Position balances have externally imposed constraints placed on them by creditors, laws or regulations of other governments or constraints imposed through constitutional provisions.

Funds held as permanent investments consist of the Education Enhancement, Health Care and the S&PL 'trust' funds. The nonexpendable portion represents the principal amount held inviolate.

Unrestricted Net Position represents assets which may be used at the State's discretion. Often though, these fund have restrictions placed on them from legislation for specific purposes. Unrestricted Net Position also includes non-liquid assets such as inventories.

| | | Primary Government | | |
|---|----|-------------------------|--------------------------|---------------------|
| | | Governmental Activities | Business-type Activities | Total |
| Assets | | | | |
| Cash and Cash Equivalents | \$ | 2,887,656 | \$ 484,760 | \$ 3,372,416 |
| Receivables, net | | 818,859 | 672,921 | 1,491,780 |
| Due From Component Units | | 776 | 35 | 811 |
| Due From Primary Government | | | | 0 |
| Internal Balances | | 13,802 | (13,802) | 0 |
| Investments | | 1,394,496 | 321,905 | 1,716,401 |
| Securities Held as Escheat Property | | 1,039 | | 1,039 |
| Inventory | | 34,506 | 1,570 | 36,076 |
| Advances to Component Units | | 1,010 | | 1,010 |
| Other Assets | | 16,151 | 280 | 16,431 |
| Assets Held for Resale | | | 321 | 321 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | | 12,220 | 34 | 12,254 |
| Investments | | | 342 | 342 |
| Net Pension Asset | | 1,898 | 47 | 1,945 |
| Other | | 7,654 | 712 | 8,366 |
| Capital Assets: | | | | |
| Land and Other Non-depreciable Assets | | 789,626 | 295 | 789,921 |
| Infrastructure, net | | 2,835,330 | | 2,835,330 |
| Property, Plant, and Equipment, net | | 813,781 | 5,372 | 819,153 |
| Right-to-use Leased Assets, net | | 72,563 | 1,622 | 74,185 |
| Right-to-use Subscription IT Assets, net | | 6,531 | 1,204 | 7,735 |
| Construction in Progress | | 372,465 | 27,397 | 399,862 |
| Total Assets | | 10,080,363 | 1,505,015 | 11,585,378 |
| Deferred Outflows of Resources | | | | |
| Related to Pensions | | 188,079 | 4,495 | 192,574 |
| Related to Asset Retirement Obligations | | | | 0 |
| Related to Debt Refunding | | 3,402 | 4,629 | 8,031 |
| Total Deferred Outflows of Resources | | 191,481 | 9,124 | 200,605 |
| Liabilities | | | | |
| Accounts Payable and Other Liabilities | | 538,392 | 12,919 | 551,311 |
| Due To Primary Government | | | | 0 |
| Due To Component Units | | 1,717 | | 1,717 |
| Advances From Primary Government | | | | 0 |
| Accrued Interest Payable | | 1,958 | 9,752 | 11,710 |
| Unearned Revenue | | 882,218 | 2,000 | 884,218 |
| Noncurrent Liabilities: | | | | |
| Due Within One Year | | 125,855 | 28,766 | 154,621 |
| Due In More Than One Year | | 340,816 | 516,819 | 857,635 |
| Total Liabilities | | 1,890,956 | 570,256 | 2,461,212 |
| Deferred Inflows of Resources | | | | |
| Related to Pensions | | 110,561 | 2,627 | 113,188 |
| Related to Gain on Debt Refunding | | | | 0 |
| Related to Swaps | | | | 0 |
| Related to Leases | | 1,403 | 1,085 | 2,488 |
| Total Deferred Inflows of Resources | | 111,964 | 3,712 | 115,676 |
| Net Position | | | | |
| Net Investment in Capital Assets | | 4,650,638 | 33,389 | 4,684,027 |
| Restricted for: | | | | |
| Education | | 375,572 | | 375,572 |
| Highways | | 312,398 | | 312,398 |
| Railroads | | 78,125 | | 78,125 |
| Law, Justice, Public Protection, and Regulation | | 30,111 | | 30,111 |
| Agriculture and Natural Resources | | 94,754 | | 94,754 |
| Parks and Recreation | | 2,130 | | 2,130 |
| Health and Public Assistance | | 63,297 | | 63,297 |
| Economic Development | | 104,360 | | 104,360 |
| Debt Service | | 32,654 | | 32,654 |
| Capital Projects | | 322 | | 322 |
| HOME, HTF, NSP, and HAF Program | | | | 0 |
| Energy Conservation Programs | | 12,473 | | 12,473 |
| Higher Education - Expendable | | | | 0 |
| Higher Education - Nonexpendable | | | | 0 |
| Funds Held as Permanent Investments: | | | | |
| Expendable | | 330,667 | | 330,667 |
| Nonexpendable | | 652,791 | | 652,791 |
| Underground Expansion | | | | 0 |
| Pensions | | 79,416 | 1,915 | 81,331 |
| Disaster Relief Fund | | | 10,237 | 10,237 |
| Experiments | | | | 0 |
| Mine Closure | | | | 0 |
| Sanford Center for Science Education | | | | 0 |
| Other Purposes | | 12,016 | 2,351 | 14,367 |
| Unrestricted | | 1,437,200 | 892,279 | 2,329,479 |
| Net Position | | \$ 8,268,924 | \$ 940,171 | \$ 9,209,095 |

THE ABOVE STATEMENT APPEARS ON PAGES 34-35 OF THE SINGLE AUDIT REPORT

A list of what State agencies comprise the different functional classifications can be found on page 9.

This represents the total cost of the function or program.

Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

STATE OF SOUTH DAKOTA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2023
(Expressed in Thousands)

| Functions/Programs | Net (Expenses) Revenue and Changes in Net Position | | | | Primary Government | | | | Component Units |
|--|--|------------|--------------|-----------|--------------------|------------|--------------|--------------|-----------------|
| Primary Government: | | | | | | | | | |
| Governmental Activities: | | | | | | | | | |
| General Government | \$ 252,816 | \$ 293,555 | \$ 25,595 | \$ | \$ 66,334 | \$ | \$ 66,334 | | |
| Education | 460,567 | 7,219 | 423,567 | | (29,781) | | (29,781) | | |
| Education - State Support to Higher Education | 289,029 | | | | (289,029) | | (289,029) | | |
| Health, Human, and Social Services | 2,060,981 | 61,782 | 1,420,479 | | (578,720) | | (578,720) | | |
| Law, Justice, Public Protection, and Regulation | 398,854 | 113,598 | 100,841 | | (184,415) | | (184,415) | | |
| Agriculture and Natural Resources | 309,021 | 95,332 | 173,632 | | (40,057) | | (40,057) | | |
| Economic Resources | 82,816 | 231 | 28,858 | | (53,727) | | (53,727) | | |
| Transportation | 798,565 | 16,941 | 594,310 | 2,598 | (184,716) | | (184,716) | | |
| Pandemic Response | | | | | - | | - | | |
| Intergovernmental - Payments to School Districts | 654,930 | | | | (654,930) | | (654,930) | | |
| Intergovernmental - Revenue Sharing | 243,089 | | | | (243,089) | | (243,089) | | |
| Unallocated Interest Expense | 9,506 | | | | (9,506) | | (9,506) | | |
| Unallocated Depreciation | 53 | | | | (53) | | (53) | | |
| Total Governmental Activities | 5,560,227 | 588,658 | 2,767,282 | 2,598 | (2,201,689) | 0 | (2,201,689) | | |
| | | | | | | | | | |
| Business-type Activities: | | | | | | | | | |
| Lottery | 69,327 | 251,538 | 606 | | | 182,817 | 182,817 | | |
| Clean Water State Revolving | 17,542 | 8,298 | 12,421 | | | 3,177 | 3,177 | | |
| Drinking Water State Revolving | 14,196 | 5,806 | 15,604 | | | 7,214 | 7,214 | | |
| Revolving Economic Development and Initiative | 567 | 833 | 3,082 | | | 3,348 | 3,348 | | |
| Unemployment Insurance | 28,631 | 43,302 | 5,887 | | | 20,558 | 20,558 | | |
| Second Injury | 474 | | 38 | | | (436) | (436) | | |
| State Fair | 2,388 | 7,067 | 74 | | | 4,753 | 4,753 | | |
| Federal Surplus Property | 2,280 | 2,045 | 21 | | | (214) | (214) | | |
| Rural Rehabilitation | 14 | 118 | 301 | | | 405 | 405 | | |
| Prison Industries | 8,397 | 9,163 | 19 | | | 785 | 785 | | |
| S.D. Trust Company Captive Insurance Co. | 28 | 50 | (16) | | | 6 | 6 | | |
| Professional and Licensing | 10,807 | 12,046 | 555 | | | 1,794 | 1,794 | | |
| Banking and Insurance | 5,911 | 6,252 | 348 | | | 689 | 689 | | |
| Other | 3,258 | 3,010 | 121 | | | (127) | (127) | | |
| Total Business-type Activities | 163,820 | 349,528 | 39,061 | 0 | 0 | 224,769 | 224,769 | | |
| Total Primary Government | \$ 5,724,047 | \$ 938,186 | \$ 2,806,343 | \$ 2,598 | (2,201,689) | 224,769 | (1,976,920) | | |
| | | | | | | | | | |
| Component Units: | | | | | | | | | |
| Housing Authority | \$ 108,750 | \$ 14,264 | \$ 71,532 | \$ | | | | \$ (22,954) | |
| Science and Technology Authority | 35,667 | 818 | 36,241 | 13,000 | | | | 14,392 | |
| Higher Education | 875,073 | 479,052 | 203,032 | 30,080 | | | | (162,909) | |
| Nonmajor | 9,658 | 6,428 | 619 | 2,718 | | | | 107 | |
| Total Component Units | \$ 1,029,148 | \$ 500,562 | \$ 311,424 | \$ 45,798 | | | | (171,364) | |
| | | | | | | | | | |
| General Revenues include those taxes and other sources of income used to fund the net costs of the functions. These revenues are not included as Program Revenue because they are not directly associated with receiving a benefit from the program or activity. | General Revenues: | | | | | | | | |
| | Taxes: | | | | | | | | |
| | Sales Taxes | | | | 1,515,425 | | 1,515,425 | | |
| | Motor Fuel Taxes | | | | 193,534 | | 193,534 | | |
| | Contractors Excise Taxes | | | | 193,935 | | 193,935 | | |
| Miscellaneous General Revenues would include the tobacco settlement revenue received from participating tobacco companies and unclaimed property receipts. | Bank Card and Franchise Taxes | | | | 54,486 | | 54,486 | | |
| | Other Taxes | | | | 490,081 | | 490,081 | | |
| | Unrestricted Investment and Interest Earnings | | | | 142,740 | | 142,740 | (31,713) | |
| | State Support to Higher Education | | | | | | 0 | 289,029 | |
| | Gain on Sale of Capital Assets | | | | 1,297 | | 1,297 | 2,514 | |
| Additional note disclosure on transfers can be found on page 78. | Miscellaneous | | | | 111,429 | | 111,429 | | |
| | Additions to Endowments | | | | | | 0 | 14,668 | |
| The Change in Net Position identifies whether the State's financial position improved or (declined) during the year. | Transfers | | | | 166,201 | (166,201) | 0 | | |
| | Total General Revenues, Additions to Endowments, and Transfers | | | | 2,869,128 | (166,201) | 2,702,927 | 274,498 | |
| | Changes in Net Position | | | | 667,439 | 58,568 | 726,007 | 103,134 | |
| | Net Position at Beginning of Year, as restated | | | | 7,601,485 | 881,603 | 8,483,088 | 2,929,777 | |
| | Net Position at End of Year | | | | \$ 8,268,924 | \$ 940,171 | \$ 9,209,095 | \$ 3,032,911 | |

THE ABOVE STATEMENT APPEARS ON PAGES 36-37 OF THE SINGLE AUDIT.

THE BELOW STATEMENT APPEARS ON PAGE 38 OF THE SINGLE AUDIT REPORT.

The cash reported in the General Fund includes \$201.9 million from the Budget Reserve Fund and 133.7 million from the General Revenue Replacement Fund.

To find additional detail on the Nonmajor funds, see the combining statements on pages 133-168.

**STATE OF SOUTH DAKOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2023
(Expressed in Thousands)**

| | General Fund | Transportation | Social Services Federal | COVID-19 Federal | Dakota Cement Trust | Education Enhancement Trust | Nonmajor | Total |
|--|---------------------|-------------------|-------------------------|-------------------|---------------------|-----------------------------|---------------------|---------------------|
| Assets | | | | | | | | |
| Cash and Cash Equivalents | \$ 1,281,756 | \$ 218,957 | \$ 5,797 | \$ 856,364 | \$ 82 | \$ 83 | \$ 447,098 | \$ 2,810,137 |
| Restricted Cash | | | | | | | 12,220 | 12,220 |
| Investments | | | | | 362,806 | 727,538 | 304,152 | 1,394,496 |
| Restricted Other Assets | | | | | | | 7,854 | 7,854 |
| Securities Held as Escheat Property | 1,039 | | | | | | | 1,039 |
| Receivables from: | | | | | | | | |
| Taxes, net | 269,608 | 19,610 | | | | | 2,856 | 291,874 |
| Interest and Dividends | 23,752 | 1,446 | | | 471 | 876 | 3,074 | 29,619 |
| Other Funds | 86,121 | 5,770 | 47 | 499 | | | 11,167 | 103,604 |
| Component Units | 78 | | | | | | 9 | 87 |
| Other Governments | 1,828 | 148,100 | 29,888 | 45,545 | | | 130,410 | 355,771 |
| Loans and Notes, net | 120 | 5,148 | | 171 | | | 54,654 | 60,093 |
| Other, net | 12,857 | 309 | 11,591 | 1,461 | | | 46,739 | 72,657 |
| Inventory | 2,982 | 22,482 | 18 | 3,700 | | | 4,593 | 33,775 |
| Advances to Component Units | | | | | | | 1,010 | 1,010 |
| Other Assets | 3,502 | 272 | 1,697 | 708 | | | 4,610 | 10,789 |
| Total Assets | \$ 1,683,643 | \$ 422,094 | \$ 49,038 | \$ 908,448 | \$ 363,359 | \$ 728,497 | \$ 1,030,046 | \$ 5,185,125 |
| Liabilities, Deferred Inflows of Resources, and Fund Balances | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts Payable and Other Liabilities | \$ 193,827 | \$ 82,808 | \$ 43,690 | \$ 15,554 | \$ | \$ | \$ 62,638 | \$ 398,517 |
| Payable to: | | | | | | | | |
| Other Funds | 7,718 | 1,588 | 1,505 | 451 | | 26,389 | 61,797 | 99,448 |
| Component Units | 210 | | 68 | 325 | | | 1,058 | 1,659 |
| Other Governments | 34,600 | 7,901 | 216 | 60,823 | | | 72,094 | 175,634 |
| Claims, Judgments, and Compensated Absences | 140 | 47 | 8 | 2 | | | 65 | 262 |
| Unearned Revenue | 37,131 | 2,556 | 350 | 826,709 | | | 14,166 | 880,912 |
| Total Liabilities | 273,626 | 94,900 | 45,835 | 903,864 | 0 | 26,389 | 211,818 | 1,556,432 |
| Deferred Inflows of Resources: | | | | | | | | |
| Related to Leases | 112 | | | | | | 1,291 | 1,403 |
| Unavailable Revenue | 44,238 | | | | | | 41,440 | 85,678 |
| Total Deferred Inflows of Resources | 44,350 | 0 | 0 | 0 | 0 | 0 | 42,731 | 87,081 |
| Fund Balances: | | | | | | | | |
| Nonspendable | 6,484 | 22,754 | 1,715 | 4,408 | | 443,646 | 217,543 | 696,550 |
| Restricted | | 304,440 | | 176 | 363,359 | 258,462 | 492,157 | 1,418,594 |
| Committed | | | | | | | 63,640 | 63,640 |
| Assigned | 882,516 | | 1,488 | | | | 15,247 | 899,251 |
| Unassigned | 476,667 | | | | | | (13,090) | 463,577 |
| Total Fund Balances | 1,365,667 | 327,194 | 3,203 | 4,584 | 363,359 | 702,108 | 775,497 | 3,541,612 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 1,683,643 | \$ 422,094 | \$ 49,038 | \$ 908,448 | \$ 363,359 | \$ 728,497 | \$ 1,030,046 | \$ 5,185,125 |

Fund balances are classified based upon the extent that the State is bound to honor constraints on the specific purpose the amounts in the fund can be spent. Additional discussion is provided on pages 60-61 and 88-90.

This reconciliation provides the entries needed to convert the governmental funds into the Governmental Activities reported in the Government-Wide Statement of Net Position.

**STATE OF SOUTH DAKOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2023

(Expressed in Thousands)

Total Fund Balances - Governmental Funds

\$ 3,541,612

This is the fund equity reported for governmental funds on page 38.

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds. These assets consist of:

Land and Construction in Progress
Infrastructure
Right-to-use Leased Assets
Right-to-use Subscription IT Assets
Other Capital Assets
Accumulated Depreciation
Total Capital Assets

\$ 1,161,951
4,765,727
78,149
5,024
1,466,842
(2,628,232)

4,849,461

Governmental funds do not report capital assets because they are not available spendable resources.

Net pension asset used in governmental activities is not a financial resource and is therefore not reported in the governmental funds.

1,762

Deferred outflows of resources are not reported in the governmental funds:

Related to Pension
Related to Debt Refunding

174,609
3,402

Total Deferred Outflows of Resources

178,011

Internal service funds are used by management to charge costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.

54,445

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities are:

Bonds and Notes
Accrued Interest on Bonds, Leases, and Notes
Leases
Subscription IT Arrangements
Compensated Absences
Pollution Remediation
Total Long-Term Liabilities

(179,918)
(1,861)
(68,581)
(4,176)
(71,966)
(12,902)

(339,404)

Governmental funds do not report long-term liabilities but they are reported in the government-wide statements.

Deferred inflows of resources are not reported in the governmental funds:

Revenues not available soon enough after year-end to pay for the current period's expenditures
Related to Pensions
Total Deferred Inflows of Resources

85,678
(102,641)

(16,963)

This is the GW equity reported funds on page 34.

Net Position of Governmental Activities

\$ 8,268,924

Department of Revenue and Department of Public Safety
Company 3177 - State Motor Vehicle Fund

| | Blue Book | | | ACFR | |
|---------------------------------------|-----------------|-----------------|-----------------|------------------|--------|
| | Revenue | Public Safety | Blue Book | Pages 138 & 142 | |
| | Page 81 | Page 240 | Total | FY2023 | |
| | FY2023 | FY2023 | | | |
| Cash on Hand | \$ - | \$ 2,940.00 | \$ 2,940.00 | \$ - | |
| Cash Pooled with State Treasurer | 3,576,885.28 | 4,502,198.51 | 8,079,083.79 | - | |
| Cash and Cash Equivalents | - | - | - | 26,688,000.00 | Note 2 |
| Accounts Receivable | - | - | - | 51,000.00 | |
| Interest and Dividends Receivable | - | - | - | 130,000.00 | |
| Due From Other Funds | - | - | - | 4,000.00 | |
| Due From Other Governments | - | - | - | 17,216,000.00 | Note 2 |
| Other Assets | - | - | - | 2,000.00 | |
| Total Assets | 3,576,885.28 | 4,505,138.51 | 8,082,023.79 | 44,091,000.00 | |
| Accounts Payable | - | - | - | 969,000.00 | |
| Accrued Liabilities | - | - | - | 8,000.00 | |
| Due to Other Funds | - | - | - | 2,172,000.00 | |
| Due to Other Governments | - | - | - | 32,926,000.00 | Note 2 |
| Total Liabilities | - | - | - | 36,075,000.00 | |
| Reserve for Encumbrances | 206,716.35 | 143,390.92 | 350,107.27 | - | |
| Unreserved Fund Balance | 3,370,168.93 | 4,361,747.59 | 7,731,916.52 | - | |
| Nonspendable Fund Balance | - | - | - | 2,000.00 | |
| Committed Fund Balance | - | - | - | 8,014,000.00 | Note 3 |
| Total Fund Equity | 3,576,885.28 | 4,505,138.51 | 8,082,023.79 | 8,016,000.00 | |
| Total Liabilities and Fund Equity | \$ 3,576,885.28 | \$ 4,505,138.51 | \$ 8,082,023.79 | \$ 44,091,000.00 | |
| Taxes | \$ 3,994,769.24 | \$ - | \$ 3,994,769.24 | \$ 4,031,000.00 | |
| Licenses, Permits and Fees | 6,631,116.37 | 8,174,012.49 | 14,805,128.86 | 156,921,000.00 | Note 1 |
| Fines, Forfeits and Penalties | 2,480.00 | - | 2,480.00 | 2,000.00 | |
| Use of Money and Property | 19,467.09 | 67,177.86 | 86,644.95 | 545,000.00 | |
| Sales and Services | - | 1,486,815.51 | 1,486,815.51 | 1,470,000.00 | |
| Other Revenue | 5,744.67 | 53,166.00 | 58,910.67 | 54,000.00 | |
| Total Operating Revenue | 10,653,577.37 | 9,781,171.86 | 20,434,749.23 | 163,023,000.00 | |
| Personal Services and Benefits | 4,355,108.43 | 7,050,661.71 | 11,405,770.14 | 12,045,000.00 | |
| Travel | 82,502.81 | 233,076.40 | 315,579.21 | 324,000.00 | |
| Contractual Services | 1,764,664.51 | 2,518,403.44 | 4,283,067.95 | 4,609,000.00 | |
| Supplies and Materials | 755,598.30 | 321,293.82 | 1,076,892.12 | 1,069,000.00 | |
| Grants and Subsidies | 1,033,269.10 | - | 1,033,269.10 | 1,033,000.00 | |
| State Shared Revenue | - | - | - | 142,703,000.00 | Note 1 |
| Capital Outlay | 102,465.04 | 179,766.83 | 282,231.87 | 1,798,000.00 | |
| Other Expense | - | - | - | 68,000.00 | |
| Total Operating Expenditures/Expenses | 8,093,608.19 | 10,303,202.20 | 18,396,810.39 | 163,649,000.00 | |
| Lease Issuance | - | - | - | 1,496,000.00 | |
| Subscriptions | - | - | - | 15,000.00 | |
| Transfers In | 1,033,269.10 | 1.50 | 1,033,270.60 | 1,033,000.00 | |
| Transfers Out | (1,596,593.46) | (598,289.59) | (2,194,883.05) | (2,316,000.00) | |
| Total Other Financing Sources (Uses) | (563,324.36) | (598,288.09) | (1,161,612.45) | 228,000.00 | |
| Net Change | 1,996,644.82 | (1,120,318.43) | 876,326.39 | (398,000.00) | |
| Beginning Fund Equity | 2,346,564.89 | 5,625,456.94 | 7,972,021.83 | 8,414,000.00 | |
| Prior Period Adjustment | (766,324.43) | - | (766,324.43) | - | |
| Ending Equity | \$ 3,576,885.28 | \$ 4,505,138.51 | \$ 8,082,023.79 | \$ 8,016,000.00 | |

**Department of Revenue and Department of Public Safety
Company 3177 - State Motor Vehicle Fund**

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The current financial resources measurement focus attempts to answer the question of whether there are enough current resources available for spending in the near future. Revenues are recognized as soon as they are both measurable and available (generally 60 days after year-end). Expenditures are recognized in the period in which the fund liability is incurred except for the long-term portion of certain liabilities such as bonds payable, compensated absences and capital lease obligations.

This fund receives revenue from driver license exams, motor vehicle and motor fuel administrative fees, a highway patrol fee, and various driver licensing fees. Under governmental accounting principles, when revenue is imposed by one government (such as the State) and is shared with another (counties), the State will recognize all revenue and report a disbursement for the amount of revenue shared with the counties. In some cases, the revenues are retained by the counties. Some revenues that are remitted to the State and are first deposited into a custodial fund and then distributed to State funds such as the State Motor Vehicle Fund. At year-end, custodial funds with monies held for distribution to State funds are not reported and the cash and revenues are reported in the appropriate fund. The following are the more significant of the year-end entries to record the above-mentioned transactions.

Note 1

| | | |
|-------------------------------------|----------------|----------------|
| Expenditures - State Shared Revenue | 141,425,730.44 | |
| Licenses, Permits and Fees | | 141,425,730.44 |

 To record revenues collected that were retained or deposited to the Local Government, Highway and Bridge Fund and distributed to counties.

Note 2

| | | |
|----------------------------------|---------------|---------------|
| Cash Pooled with State Treasurer | 15,214,949.42 | |
| Due from Other Governments | 15,959,515.16 | |
| Due to Other Governments | | 31,174,464.58 |

 To record revenues collected and being held in the custodial fund and earned but not yet received from counties and to record the liability of the monies back to the counties.

Note 3

As discussed in the ACFR Notes to the Financial Statements on pages 60 and 61, fund balances can be classified in five different categories. The categories are also discussed on Attachment 2 of the handout. The Bureau of Finance and Management determines the appropriate category for each fund's equity balance based on government accounting standards.

Department of Revenue

Company 6516 - Lottery Operating and Video Lottery Operating Funds

| | Blue Book | | | | |
|---------------------------------------|------------------|-----------------|------------------|------------------|--------|
| | Lottery | Video Lottery | | ACFR | |
| | Operating Fund | Operating Fund | | Pages 42 & 43 | |
| | Page 84 | Page 86 | Blue Book | FY2023 | |
| | FY2023 | FY2023 | Total | | |
| Cash Pooled with State Treasurer | \$ 12,332,398.40 | \$ 4,437,047.82 | \$ 16,769,446.22 | \$ 16,865,000.00 | Note 1 |
| Cash and Cash Equivalents | 42,496.82 | - | 42,496.82 | - | |
| Restricted Assets | 631,743.69 | - | 631,743.69 | 1,094,000.00 | |
| Accounts Receivable | 8,071.36 | - | 8,071.36 | 7,512,000.00 | |
| Interest and Dividends Receivable | | | | 141,000.00 | |
| Capital Assets: | - | - | - | | |
| Property, Plant, and Equipment | - | - | - | 1,426,000.00 | Note 3 |
| Right to use Assets | - | - | - | 979,000.00 | |
| Accumulated Depreciation | - | - | - | (1,579,000.00) | |
| Total Assets | 13,014,710.27 | 4,437,047.82 | 17,451,758.09 | 26,438,000.00 | |
| Deferred Outflow Related to Pensions | - | - | - | 612,000.00 | Note 2 |
| Accounts Payable | 772,529.88 | 582.28 | 773,112.16 | 4,616,000.00 | Note 1 |
| Due to Other Funds | (1,576.00) | - | (1,576.00) | 14,063,000.00 | |
| Due to Other Governments | - | - | - | - | |
| Escrow Payable | - | - | - | 182,000.00 | |
| Unearned Revenue | - | - | - | 277,000.00 | |
| Other Liabilities | - | - | - | 2,000.00 | |
| Leases Payable | - | - | - | 116,000.00 | Note 2 |
| Compensated Absences | - | 34,400.00 | 34,400.00 | 172,000.00 | |
| Noncurrent Liabilities: | - | - | - | | |
| Leases Payable | - | - | - | 650,000.00 | |
| Compensated Absences | - | - | - | 143,000.00 | |
| Total Liabilities | 770,953.88 | 34,982.28 | 805,936.16 | 20,221,000.00 | |
| Deferred Inflow Related to Pensions | - | - | - | 360,000.00 | Note 2 |
| Reserve for Encumbrances | - | - | - | - | |
| Unreserved Fund Balance | 12,243,756.39 | 4,402,065.54 | 16,645,821.93 | - | |
| Net Investment in Capital Assets | - | - | - | 59,000.00 | Note 5 |
| Restricted for Pensions | - | - | - | 258,000.00 | |
| Restricted for Other | - | - | - | 712,000.00 | |
| Unrestricted Net Position | - | - | - | 5,440,000.00 | |
| Total Net Position | \$ 12,243,756.39 | \$ 4,402,065.54 | \$ 16,645,821.93 | \$ 6,469,000.00 | |
| Operating/Nonoperating Revenue: | | | | | |
| Licenses, Permits and Fees | \$ 166,165.37 | \$ 1,421,695.95 | \$ 1,587,861.32 | \$ 1,590,000.00 | |
| Investment Income | 128,551.23 | 34,017.59 | 162,568.82 | 606,000.00 | |
| Sales and Services | 84,848,290.00 | 1,644,379.72 | 86,492,669.72 | 249,908,000.00 | Note 4 |
| Other Revenue | 17,554.79 | 19,876.33 | 37,431.12 | 40,000.00 | |
| Total Operating/Nonoperating Revenue | 85,160,561.39 | 3,119,969.59 | 88,280,530.98 | 252,144,000.00 | |
| Operating/Nonoperating Expenses: | | | | | |
| Personal Services and Benefits | 1,486,521.55 | 723,525.70 | 2,210,047.25 | 2,098,000.00 | |
| Travel | 161,017.54 | 14,192.43 | 175,209.97 | 165,000.00 | |
| Contractual Services | 13,799,326.52 | 1,459,423.82 | 15,258,750.34 | 14,478,000.00 | |
| Supplies and Materials | 562,656.48 | 14,995.62 | 577,652.10 | 604,000.00 | |
| Capital Outlay | 10,072.44 | 7,029.11 | 17,101.55 | - | |
| Other Expense | 216,540.00 | - | 216,540.00 | 306,000.00 | |
| Bad Debts Expense | 8,993.39 | - | 8,993.39 | - | |
| Depreciation/Amortization Expense | - | - | - | 172,000.00 | Note 3 |
| Lottery Prizes | 49,650,873.77 | - | 49,650,873.77 | 51,504,000.00 | |
| Total Operating Expenditures/Expenses | 65,896,001.69 | 2,219,166.68 | 68,115,168.37 | 69,327,000.00 | |
| Transfers In | - | - | - | - | |
| Transfers Out | (16,615,645.24) | (214,000.00) | (16,829,645.24) | (181,948,000.00) | Note 4 |
| Net Transfers In (Out) | (16,615,645.24) | (214,000.00) | (16,829,645.24) | (181,948,000.00) | |
| Net Change | 2,648,914.46 | 686,802.91 | 3,335,717.37 | 869,000.00 | |
| Beginning Net Position | 9,594,841.93 | 3,715,262.63 | 13,310,104.56 | 5,600,000.00 | |
| Prior Period Adjustment | - | - | - | - | |
| Ending Net Position | \$ 12,243,756.39 | \$ 4,402,065.54 | \$ 16,645,821.93 | \$ 6,469,000.00 | |

Department of Revenue
Company 6516 - Lottery Operating and Video Lottery Operating Funds

The Lottery Fund is a proprietary fund which is reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus is similar to private enterprise reporting and attempts to answer the question of whether the fund's total economic resources have increased or decreased. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Note 1

As with governmental funds, the Lottery Fund will report all receivables and current liabilities in the ACFR.

Note 2

Under the accrual basis of accounting expenses are recorded when a liability is incurred regardless of timing. As a result, long-term liabilities such as pension liability, bonds and leases payable and compensated absences are reported.

Note 3

Long-term assets such as capital assets are recorded in proprietary funds and depreciation expense is recognized in the fund.

Note 4

On the State's accounting system video lottery proceeds are deposited directly into the General Fund. On the financial statement these proceeds are recognized as revenue and the transfer out to the General Fund is reported.

Note 5

As discussed in the ACFR Notes to the Financial Statements on page 60, the net position in proprietary funds is separated into three categories.

Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds, notes, and other debts that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net position consists of assets that have externally imposed constraints placed on them by either creditors, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation of the State.

Unrestricted net position consists of assets that do not meet the definition of the two preceding categories.

In the fund financial statements, the governmental funds report fund balance classifications using a hierarchy based primarily on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The fund balances are reported in five different categories:

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable as well as property acquired for resale.

Restricted fund balance consists of assets that have externally imposed constraints placed on them by either creditors, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation of the State.

Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature through legislation passed into law.

Assigned fund balance includes amounts that are constrained by the State’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance are created by the executive branch or by directive of the Appropriations Committee of the Legislature or in some cases by passage of an appropriation. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed.

Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

The next two pages appear in the Single Audit Report on pages 88-89.

8. FUND BALANCES AND NET POSITION

Fund Balance Classifications – Governmental Funds

The following table provides additional detail regarding the fund balances reported on the Governmental Fund Balance Sheet at June 30, 2023, (Expressed in Thousands):

| | General | Trans- portation | Social Services Federal | COVID-19 Federal | Dakota Cement Trust | Education Enhancement Trust | Nonmajor Governmental Funds | Total |
|---|---------------------|---------------------|-------------------------------|---------------------|---------------------------|-----------------------------------|-----------------------------------|---------------------|
| Nonspendable | | | | | | | | |
| Inventory | \$ 2,982 | \$ 22,482 | \$ 17 | \$ 3,700 | \$ | \$ | \$ 4,037 | \$ 33,218 |
| Prepays | 3,502 | 272 | 1,698 | 708 | | | 4,360 | 10,540 |
| Permanent Fund Principal | | | | | | 443,646 | 209,146 | 652,792 |
| Total Nonspendable Fund Balances | 6,484 | 22,754 | 1,715 | 4,408 | 0 | 443,646 | 217,543 | 696,550 |
| Restricted | | | | | | | | |
| Education | | | | | 363,359 | 258,462 | 11,982 | 633,803 |
| Health and Public Assistance | | | | | | | 104,113 | 104,113 |
| Law, Justice, and Public Protection | | | | | | | 30,704 | 30,704 |
| Economic Development | | | | 176 | | | 100,739 | 100,915 |
| Transportation | | 304,440 | | | | | | 304,440 |
| Agriculture and Natural Resources | | | | | | | 104,416 | 104,416 |
| Energy Conservation or Development | | | | | | | 12,475 | 12,475 |
| Game and Fish | | | | | | | 208 | 208 |
| Parks and Recreation | | | | | | | 2,130 | 2,130 |
| Public Buildings | | | | | | | 1,380 | 1,380 |
| Public Broadcasting | | | | | | | 350 | 350 |
| Railroads | | | | | | | 78,125 | 78,125 |
| Debt Service | | | | | | | 35,084 | 35,084 |
| Capital Projects | | | | | | | 322 | 322 |
| Other | | | | | | | 10,129 | 10,129 |
| Total Restricted Fund Balances | 0 | 304,440 | 0 | 176 | 363,359 | 258,462 | 492,157 | 1,418,594 |
| Committed | | | | | | | | |
| Education | | | | | | | 327 | 327 |
| Health and Public Assistance | | | | | | | 4,776 | 4,776 |
| Law, Justice, and Public Protection | | | | | | | 18,890 | 18,890 |
| Agriculture and Natural Resources | | | | | | | 9,484 | 9,484 |
| Environmental Cleanup | | | | | | | 6,519 | 6,519 |
| Energy Conservation or Development | | | | | | | 824 | 824 |
| Public Buildings | | | | | | | 2,450 | 2,450 |
| Railroads | | | | | | | 420 | 420 |
| Other | | | | | | | 19,950 | 19,950 |
| Total Committed Fund Balances | 0 | 0 | 0 | 0 | 0 | 0 | 63,640 | 63,640 |
| Assigned | | | | | | | | |
| Education | 18,180 | | | | | | 471 | 18,651 |
| Higher Education | 103,760 | | | | | | | 103,760 |
| Health and Public Assistance | 62,556 | | 1,488 | | | | 6,277 | 70,321 |
| Law, Justice, and Public Protection | 418,259 | | | | | | 3,372 | 421,631 |
| Agriculture and Natural Resources | 5,439 | | | | | | 754 | 6,193 |
| Game and Fish | 4,079 | | | | | | | 4,079 |
| Tourism Promotion | 8,062 | | | | | | | 8,062 |
| Public Buildings | 30,048 | | | | | | 2,087 | 32,135 |
| Economic Development | 76,235 | | | | | | | 76,235 |
| School Districts | 8,788 | | | | | | | 8,788 |
| Transportation | 6,250 | | | | | | | 6,250 |
| Other | 140,880 | | | | | | 2,286 | 143,166 |
| Total Assigned Fund Balances | 882,516 | 0 | 1,488 | 0 | 0 | 0 | 15,247 | 899,251 |
| Unassigned Fund Balances * | 476,667 | | | | | | (13,090) | 463,577 |
| Total Fund Balances | \$ 1,365,667 | \$ 327,194 | \$ 3,203 | \$ 4,584 | \$ 363,359 | \$ 702,108 | \$ 775,497 | \$ 3,541,612 |

* This amount includes \$201.9 million of equity from the Budget Reserve established by the 1991 South Dakota Legislature and \$133.7 million of equity from the General Revenue Replacement Fund established by the 2015 South Dakota Legislature, as discussed further in the following paragraphs.

Budget Reserve

The 1991 South Dakota Legislature established the Budget Reserve that is funded from any unobligated cash in the General Fund. The maximum balance of the Budget Reserve is 10% of the prior year's General Fund appropriation. Expenditures out of the Budget Reserve shall only be used by special appropriation (which requires a two-thirds vote of all the members of each house of the Legislature) and shall only redress such unforeseen expenditure obligations or such unforeseen revenue shortfalls as may constitute an emergency pursuant to South Dakota Constitution, Article III, Section 1. The balance in the Budget Reserve at June 30, 2023, was \$201.9 million and is reported as unassigned fund balance within the General Fund.

General Revenue Replacement Fund

The 2015 Legislative Session created the General Revenue Replacement Fund (GRRF). This fund is to be used to balance the General Fund annual budget due to an unforeseen revenue shortfall. Revenues deposited in the GRRF include unobligated General Fund cash remaining at the end of a fiscal year after the transfer into the Budget Reserve, if the amount in the GRRF does not exceed 15% of the General Fund appropriations in the General Appropriations Act for the previous fiscal year. The balance in the GRRF at June 30, 2023, was \$133.7 million and is reported as unassigned fund balance within the General Fund.

General Fund

GASB 54

The State has statutorily created funds that do not qualify as Special Revenue Funds and are required to be combined with the State's General Fund. As of June 30, 2023, the following equity balances are included within the State's General Fund in accordance with GASB 54 (Expressed in Thousands):

| | |
|--|-------------------|
| Fund Balance - June 30, 2023 as reported | \$1,365,667 |
| Less Statutorily Created Funds Combined with the General Fund: | |
| Incarceration Construction Fund - assigned for Law, Justice, and Public Protection | 365,565 |
| Tourism Promotion - assigned for Tourism Promotion | 8,062 |
| Investment Council Operating - assigned for Other | 2,048 |
| Private Activity Bond - assigned for Other | 160 |
| Proof of Concept - assigned for Economic Development | 23 |
| Fine Arts - assigned for Other | 1,251 |
| Economic Development - assigned for Economic Development | 44 |
| Local Infrastructure Improvement - assigned for Economic Development | 5,890 |
| Workforce Education - assigned for Education | 2,424 |
| Extraordinary Litigation Expense - assigned for Other | 1,793 |
| IT Modernization Fund - assigned for Other | 4,564 |
| Department of Labor and Regulation Other - unassigned | (19) |
| Legislative Contingency Fund - unassigned | 1,545 |
| Unclaimed Property - unassigned | 7 |
| Fund Balance - June 30, 2023 excluding GASB 54 combinations | <u>\$ 972,310</u> |

Net Position Restricted by Enabling Legislation

The Government-wide Statement of Net Position reports \$2.2 billion of restricted net position for the primary government of which \$279.0 million was restricted by enabling legislation. Restrictions imposed by enabling legislation could be changed by future legislative action.

The Uniform Guidance establishes the methodology of the audit scope for the Single Audit including the calculation to identify the Type A grants. These are grants exceeding .3% of the total on the Schedule of Expenditures of Federal Awards (SEFA). Type A grants are required to be audited at least once every three years with Medicaid, identified as a high-risk grant, required to be audited every year. For FY2023 there were 32 Type A grant programs totaling \$2.65 billion (90.74%) of the \$2.93 billion reported on the State's SEFA. There were 38 programs that exceeded 25% of the Type A grant threshold of \$8.7 million. These are considered large Type B grant programs and represented 6.01% of the total reported on the SEFA. The auditor is expected to audit high risk Type B programs equal to one-fourth of the Type A programs considered low risk. Total coverage must be at least 40% of the total on the SEFA.

| | Expenditures/ Disbursements/ Issuances, Loan Balances | Last Audited | Next Planned Audit* |
|--|--|-----------------|---------------------------|
| Type A Grant Programs | | | |
| Department of Education | | | |
| Child Nutrition Cluster | \$ 56,807,524 | FY2023 | FY2026 |
| Special Education Cluster | 44,882,674 | FY2023 | FY2026 |
| Title I Grants to Local Educational Agencies | 53,777,151 | FY2023 | FY2026 |
| Supporting Effective Instruction State Grants | 9,872,174 | FY2023 | FY2026 |
| Department of Agriculture and Natural Resources | | | |
| Capitalization Grants for Drinking Water State Revolving Funds ** | 18,356,928 | FY2022 | FY2025 |
| Department of Game, Fish and Parks | | | |
| Fish and Wildlife Cluster | 18,161,063 | FY2022 | FY2025 |
| Department of Health | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 17,297,513 | FY2023 | FY2026 |
| Immunization Cooperative Agreements | 16,096,551 | FY2022 | FY2025 |
| Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) | 16,951,892 | FY2021 | FY2024 |
| COVID-19 Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises | 10,199,011 | FY2023 | FY2026 |
| Department of Human Services | | | |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | 11,083,967 | FY2022 | FY2025 |
| Aging Cluster | 9,025,050 | FY2022 | FY2025 |
| Department of Labor | | | |
| Unemployment Insurance | 36,288,497 | FY2023 | FY2026 |
| Department of Military | | | |
| National Guard Military Operations and Maintenance (O&M) Projects | 19,335,902 | FY2022 | FY2025 |
| Department of Public Safety | | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 33,111,367 | FY2023 | FY2024 |
| Department of Social Services | | | |
| TANF Cluster | 21,682,244 | FY2023 | FY2024 |
| Low-Income Home Energy Assistance | 44,620,357 | FY2021 | FY2024 |
| Child Care Development Cluster | 60,471,241 | FY2022 | FY2025 |
| Supplemental Nutrition Assistance Program Cluster | 173,447,146 | FY2021 | FY2024 |
| Children's Health Insurance Program | 31,002,446 | FY2023 | FY2026 |
| Medicaid Cluster | 850,839,812 | FY2023 | FY2024 |
| Adoption Assistance | 9,326,277 | FY2022 | FY2025 |
| Block Grants for Prevention and Treatment of Substance Abuse | 8,934,143 | FY2022 | FY2025 |
| Department of Transportation | | | |
| Highway Planning and Construction Cluster | 415,225,883 | FY2021 | FY2024 |
| Nationally Significant Freight and Highway Projects | 29,487,651 | FY2023 | FY2026 |
| National Infrastructure Investments | 13,525,099 | FY2023 | FY2026 |
| Formula Grants for Rural Areas and Tribal Transit Program | 9,717,486 | FY2021 | FY2024 |
| Science & Technology Authority | | | |
| Office of Science Financial Assistance Program | 31,542,298 | FY2023 | FY2026 |
| Board of Regents | | | |
| Research and Development Cluster | 63,227,168 | FY2023 | FY2026 |
| Student Financial Aid Cluster ** | 174,249,891 | FY2022 | FY2025 |
| Various Agencies | | | |
| Covid-19 Coronavirus Relief Fund | 136,540,972 | FY2023 | FY2024 |
| Education Stabilization Fund | 210,684,195 | FY2023 | FY2026 |
| Type A Grant Programs | 2,655,771,573 | 90.74% | |
| Large Type B Gran Programs (38 programs between \$2.1 and \$8.7 million) | 175,852,098 | 6.01% | |
| Total | 2,831,623,671 | | |
| Small Type B Programs (over 200 programs under \$2.1 million) | 95,141,909 | 3.25% | |
| Total Reported on Schedule of Federal Awards | \$ 2,926,765,580 | 100.00% | |

* Type A programs are required to be audited once every three years with the exception of Medicaid which is required to be audited every year. All Type A programs are assessed each year and will be audited if they are assessed as high risk.

** includes loans issued during year

Other Programs Audited in FY2023:

| | |
|--|----------------------|
| Department of Social Services | |
| Community Services Block Grant | \$ 6,375,666 |
| Department of Labor | |
| WIA/WIOA Cluster | 7,987,022 |
| Department of Agriculture and Natural Resources | |
| Capitalization Grants for Clean Water State Revolving Funds ** | 7,425,280 |
| Department of Education | |
| Child and Adult Care Food Program | 7,649,158 |
| | <u>\$ 29,437,126</u> |

- Single Audit Act. The Single Audit Act requires that any non-federal entity that expends a total amount of federal awards greater than \$750,000 to have a Single Audit. This Act gives the Office of Management and Budget (OMB) the authority to develop policies on performing the audits.
- Uniform Guidance. OMB issued Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). It includes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements.

For the recipients of federal grants like the State, the Uniform Guidance covers the administrative requirements, procurement, internal control and subrecipient monitoring in addition to the cost principles that identify what grant costs are allowable or unallowable and the Single Audit requirements.

The Uniform Guidance requires the audit to be performed in accordance with generally accepted government auditing standards (GAGAS) and cover the entire operations of the auditee, although individual audits of agencies or departments are allowed.

The Uniform Guidance requires:

1. The auditor to determine whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles.
2. The auditor to determine whether the Schedule of Expenditures of Federal Awards is stated fairly in all material respects in relation to the auditee's financial statements as a whole.
3. That in addition to the requirements of GAGAS, the auditor must plan and perform testing of internal control over compliance for major programs that will support a low assessed level of control risk for the assertions relevant to the compliance requirements of the program and perform testing of internal control.
4. That in addition to the requirements of GAGAS, the auditor must determine whether the auditee has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs. These compliance requirements are commonly found in the Compliance Supplement issued by the OMB.
5. The auditor must follow-up on prior audit findings and complete and sign sections of the data collection form submitted to the Federal Audit Clearinghouse.

Additional reporting requirements of the Uniform Guidance include:

1. A report on compliance for each major program, and,
2. A report on internal control over compliance

For the State's Single Audit, this is combined as the Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.

- Government Auditing Standards. As noted above, the Uniform Guidance requires the audits to be performed in accordance GAGAS. An audit performed in accordance with GAGAS is performed using the *Government Auditing Standards* (commonly referred to as the Yellow Book), issued by the Comptroller General's Government Accountability Office (GAO).

Government Auditing Standards incorporates by reference the AICPA Statements on Auditing Standards and as a result, auditors performing financial statement audits in accordance with *Government Auditing Standards* should comply with the generally accepted auditing standards (GAAS) relevant to financial statement audits.

GAGAS establishes requirements for performing financial audits in addition to the requirements contained in the AICPA standards. The additional financial audit requirements include the following areas:

1. Auditor communication. Requirements concerning communications to individuals contracting for or requesting the audit and to cognizant legislative committees when auditors perform the audit pursuant to a law or regulation, or they conduct the work for the legislative committee that has oversight of the audited entity.
2. Previous audits and attestation engagements. Auditors should evaluate whether the entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements or other financial data significant to the audit objectives.
3. Fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse. Under the AICPA Statements on Auditing Standards auditors have certain responsibilities concerning fraud, and noncompliance with laws and regulations. GAGAS extends those responsibilities to include contracts and grant agreements. GAGAS also defines abuse and discusses auditor's response when abuse is detected.
4. Developing elements of a finding. GAGAS identifies that when an auditor identifies findings, they should plan and perform procedures to identify the following elements of a finding: Criteria, Condition, Cause, Effect or potential effect.
5. Audit documentation. GAGAS requires additional documentation to be followed including documented supervisory review prior to the report release date.

In addition to the reporting standards contained in the AICPA Statement on Auditing Standards, GAGAS requires the following for financial audits:

1. When auditors comply with all applicable GAGAS requirements for financial audits, they include a statement in the auditors' report that they performed the audit in accordance with GAGAS.
2. Auditors are required to include a 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. This will include the presentation of the any auditor findings and identification of any prior findings that have not been resolved along with the responses to the findings from the entity.

Finally, GAGAS states that for a financial audit, the "auditors may find it appropriate to use lower materiality levels than those used in non-GAGAS audits because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs." The auditor should also consider early communication of deficiencies that are identified.

- Compliance Supplement. As identified in the Uniform Guidance, the auditor must determine whether the auditee has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs. These compliance requirements are commonly found in the Compliance Supplement issued by the OMB. The supplement provides a source of information for auditors to understand the federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

The Uniform Guidance states that an audit of the compliance requirements contained in the Compliance Supplement will meet the requirements of the Uniform Guidance. For programs covered in the Compliance Supplement, the auditor must follow the Compliance Supplement's guidance for those programs.

An audit of a federal program is broken down into the compliance requirements shown below. The federal program identifies the requirements applicable to the program in the Compliance Supplement:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Eligibility
- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Performance
- Procurement and Suspension and Debarment
- Program Income
- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions

- AICPA Audit and Accounting Guides. The AICPA Statements on Auditing Standards requires the auditor to consider applicable interpretive publications in planning and performing the audit. Two guides are released annually that are relevant to the State Single Audit.
 1. State and Local Governments. This guide helps the auditor understand the generally accepted accounting principles applicable to the financial statements of state and local governments and how to audit and report on those financial statements in accordance with generally accepted auditing standards.
 2. Government Auditing Standards and Single Audits. This guide provides the auditor with information for performing a GAGAS audit and also an audit of federal program performed in accordance with the Uniform Guidance