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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 Sw aps			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
High ways	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	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government				
					Governmental Activities	Business-type Activities	Total		
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.									
Miscellaneous General Revenues would include the tobacco settlement revenue received from participating tobacco companies and unclaimed property receipts.									
Additional note disclosure on transfers can be found on page 78.									
The Change in Net Position identifies whether the State's financial position improved or (declined) during the year.									
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		
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	
Miscellaneous					111,429		111,429		
Additions to Endowments							0	14,668	
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									
Net Position at Beginning of Year, as restated						667,439	58,568	726,007	103,134
Net Position at End of Year						7,601,485	881,603	8,483,088	2,929,777
						\$ 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	289,608	19,610					2,856	291,874
Interest and Dividends	23,752	1,446			471	876	3,074	29,619
Other Funds	88,121	5,770	47	499			11,187	103,804
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			54,854	60,093
Other, net	12,857	309	11,591	1,461			46,739	72,957
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	890,251
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:			} Governmental funds do not report capital assets because they are not available spendable resources.
Land and Construction in Progress	\$ 1,161,951		
Infrastructure	4,765,727		
Right-to-use Leased Assets	78,149		
Right-to-use Subscription IT Assets	5,024		
Other Capital Assets	1,466,842		
Accumulated Depreciation	<u>(2,628,232)</u>		
Total Capital Assets		4,849,461	
Net pension asset used in governmental activities is not a financial resource and is therefore not reported in the governmental funds.		1,782	
Deferred outflows of resources are not reported in the governmental funds:			
Related to Pension	174,609		
Related to Debt Refunding	<u>3,402</u>		
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:			} Governmental funds do not report long-term liabilities but they are reported in the government-wide statements.
Bonds and Notes	(179,918)		
Accrued Interest on Bonds, Leases, and Notes	(1,861)		
Leases	(68,581)		
Subscription IT Arrangements	(4,178)		
Compensated Absences	(71,968)		
Pollution Remediation	<u>(12,902)</u>		
Total Long-Term Liabilities		(339,404)	
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	85,678		
Related to Pensions	<u>(102,641)</u>		
Total Deferred Inflows of Resources		(16,963)	
Net Position of Governmental Activities		\$ 8,268,924	← This is the GW equity reported funds on page 34.

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

	Blue Book			ACFR Pages 138 & 142 FY2023	
	Revenue Page 81 FY2023	Public Safety Page 240 FY2023	Blue Book Total		
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			ACFR Pages 42 & 43 FY2023	
	Lottery	Video Lottery	Blue Book Total		
	Operating Fund	Operating Fund			
	Page 84 FY2023	Page 86 FY2023			
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							4,778	4,778
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	140,860						2,286	143,146
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		
	\$ 29,437,126		

- 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