

FY2010 SINGLE AUDIT OVERVIEW

Purpose

The following overview is intended to provide the reader with a general understanding of the different auditor's reports, management letters, financial statements and other information included in the FY2010 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 federal laws and regulations for both the federal programs and the State as a whole.

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).

Comprehensive Annual Financial Report

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

- The Introductory Section (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 (pages 11-153) 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 (pages 155-176) displays selected unaudited economic, financial trend and demographic information for the state.

Independent Auditors Report

The Independent Auditors Report issued by the Department of Legislative Audit (pages 15-16) provides unqualified 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 unqualified 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 CAFR are the government-wide financial statements—the Statement of Net Assets (pages 30-31) and the Statement of Activities (pages 32-33). The government-wide statements provide comprehensive information about the entire government, including all of the governmental funds, proprietary funds, 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. This is because fiduciary fund resources are not available to support the State's programs.

The Statement of Net Assets 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 assets).

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. Program revenues include: 1) charges to customers or applicants who

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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. Taxes and other items not properly included as program revenues are reported 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 are financed in whole or in part by fees charged to external parties for goods or services.
- Discretely Presented Component Units are entities 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 Conservation Reserve Enhancement Program (CREP), South Dakota Finance Authority, South Dakota Housing Authority, Value Added Finance Authority, Science and Technology Authority, and, Higher Education.

Fund Financial Statements

Separate financial statements are provided for governmental funds (pages 34-41), proprietary funds (pages 42-45), and fiduciary funds (pages 46-47). Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column. Additional combining statements for nonmajor funds and component units can be found on pages 117-153.

The Government Accounting Standards Board (GASB) established the criteria to be used in determining the major funds to be reported. The criteria establishes a fund as major if, the total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and, total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined. The General Fund is always displayed as a major fund.

The major governmental funds are:

- General Fund
- Transportation Fund
- Social Services 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

The government-wide Statement of Net Assets 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

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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.

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 capital lease obligations.

Schedule of Expenditures of Federal Awards

Pages 177-251 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 incurred on federal grants during the fiscal year.

Internal Control and Compliance Reports

Pages 253-258 provides two auditor's reports regarding internal control and compliance.

- 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 the material reportable conditions and noncompliance that were identified during testing.

- Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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 unqualified opinion on the State's compliance with the requirements of major federal programs except for financial reporting compliance for the Unemployment Insurance program. The report also provides a listing of audit findings resulting in questioned costs and reportable conditions.

Findings, Questioned Costs and Corrective Action Plans

Pages 259-323 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.

Selected Financial Statements

The following pages provide selected financial statements from the Single Audit Report. The statements contain information about what comprises certain columns and balances in those statements and where to find additional note disclosures for certain account balances.

**STATE OF SOUTH DAKOTA
STATEMENT OF NET ASSETS
June 30, 2010
(Expressed in Thousands)**

Discretely Presented Component Units are entities 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 total is shown here. In the report they are broken out further.

Business-Type Activities are financed in whole or in part by fees charged to external parties for goods or services.

Governmental Activities encompass most of the State's basic services and are funded through taxes, fees and federal grants.

Includes cash on hand, cash in local banks and cash in the State Treasury. Additional note disclosure is on page 57.

A breakdown of receivables appears in Note 4 on page 65.

Internal balances represent net receivables and payables between funds.

Most investments are managed by the Investment Council. Note disclosure on investments appears on pages 57-64.

Most capital assets are reported at their original cost less the accumulated annual depreciation charges. 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 68-71.

Liabilities are shown in order of maturity. A breakdown of what Accounts Payable and Other Liabilities represents in shown in the Notes on page 66.

The notes on pages 82-91 provide information on long-term liabilities including what they consist of and what the changes were during the year.

Restricted net assets are assets that 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, Dakota Cement and S&PL 'trust' funds. The nonexpendable portion represents the principal amount held inviolate.

Unrestricted Net Assets represents assets which may be used at the state's discretion. Often though, these assets have restrictions placed on them from enabling legislation for specific purposes. Unrestricted Net Assets also include non-liquid assets such as inventories and

| | Primary Government | | Total | Component Units |
|---|-------------------------|--------------------------|---------------------|---------------------|
| | Governmental Activities | Business-Type Activities | | |
| Assets | | | | |
| Cash and Cash Equivalents | \$ 654,723 | \$ 165,927 | \$ 820,650 | \$ 486,866 |
| Receivables (Net) | 371,165 | 384,485 | 755,650 | 1,771,718 |
| Due From Component Units | 1,131 | 12 | 1,143 | |
| Due From Primary Government | | | 0 | 2,039 |
| Internal Balances | 7,903 | (7,903) | 0 | |
| Investments | 671,852 | 91,778 | 763,630 | 877,393 |
| Inventory | 24,376 | 2,391 | 26,767 | 10,510 |
| Deferred Swap Outflow | | | 0 | 30,107 |
| Deferred Fiscal Charges and Other Assets | 9,475 | 1,134 | 10,609 | 19,133 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | 1 | 578 | 579 | 49,519 |
| Investments | 23,422 | 1,255 | 24,677 | 22,350 |
| Other | | 808 | 808 | |
| Capital Assets: | | | | |
| Land and Other Non-depreciable Assets | 705,330 | 295 | 705,625 | 46,021 |
| Infrastructure (net) | 1,979,238 | | 1,979,238 | |
| Property, Plant and Equipment (net) | 382,731 | 4,568 | 387,299 | 517,312 |
| Construction in Progress | 216,372 | | 216,372 | 219,452 |
| Total Assets | 5,047,719 | 645,328 | 5,693,047 | 4,052,420 |
| Liabilities | | | | |
| Accounts Payable and Other Liabilities | 300,666 | 60,794 | 361,460 | 79,264 |
| Due To Primary Government | | | 0 | 1,143 |
| Due To Component Units | 2,039 | | 2,039 | |
| Accrued Interest Payable | 9,732 | 2,050 | 11,782 | 16,105 |
| Deferred Revenue | 38,261 | 2,351 | 40,612 | 19,061 |
| Fair Value of Interest rate Swap Agreements | | | 0 | 30,107 |
| Noncurrent Liabilities: | | | | |
| Due Within One Year | 46,782 | 6,740 | 53,522 | 218,386 |
| Due In More Than One Year | 354,008 | 120,948 | 474,956 | 2,334,497 |
| Total Liabilities | 751,488 | 192,883 | 944,371 | 2,698,563 |
| Net Assets | | | | |
| Invested In Capital Assets, Net of Related Debt | 3,211,673 | 4,863 | 3,216,536 | 495,160 |
| Restricted For: | | | | |
| Highways | 132,696 | | 132,696 | |
| Agriculture and Natural Resources | 90,420 | | 90,420 | |
| Health and Public Assistance | 4,013 | | 4,013 | |
| Economic Development | 27,112 | | 27,112 | |
| Debt Service | 56,609 | 1,330 | 57,939 | 447,601 |
| Capital Projects | 148 | | 148 | |
| Energy Conservation Program | 11,006 | | 11,006 | |
| Higher Education - Expendable | | | 0 | 99,533 |
| Higher Education - Nonexpendable | | | 0 | 270,420 |
| Funds held as Permanent Investments | | | | |
| Expendable | 4,676 | | 4,676 | |
| Nonexpendable | 648,617 | | 648,617 | |
| Interim Lab | | | 0 | 20,211 |
| Sanford Center for Science Education | | | 0 | 13,100 |
| Other Purposes | 29,407 | 808 | 30,215 | 13,019 |
| Unrestricted | 79,854 | 445,444 | 525,298 | (5,187) |
| Net Assets | \$ 4,296,231 | \$ 452,445 | \$ 4,748,676 | \$ 1,353,857 |

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

Net Assets of \$4,296,231 represents Total Assets of \$5,047,719 less Total Liabilities of \$751,488.

THE ABOVE STATEMENT APPEARS ON PAGES 30-31 OF THE SINGLE AUDIT REPORT

**STATE OF SOUTH DAKOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010
(Expressed in Thousands)**

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 capital lease obligations.

To find additional detail on the Nonmajor funds, see the combining statements on pages 117-153.

The cash reported in the General Fund includes \$43.4 million in the Budget Reserve Fund.

| | General Fund | Transportation | Social Services Federal | Dakota Cement Trust | Education Enhancement Trust | Nonmajor | Total |
|---|-------------------|-------------------|-------------------------|---------------------|-----------------------------|-------------------|---------------------|
| Assets | | | | | | | |
| Cash and Cash Equivalents | \$ 109,953 | \$ 117,230 | \$ 2,934 | \$ 12,186 | \$ 17,118 | \$ 339,395 | \$ 598,816 |
| Investments | | | | 197,950 | 320,757 | 176,567 | 695,274 |
| Receivables From: | | | | | | | |
| Taxes (net) | 95,331 | 11,583 | | | | 6,226 | 113,140 |
| Interest and Dividends | 2,394 | 519 | 2 | 845 | 1,536 | 2,126 | 7,422 |
| Other Funds | 37,925 | 1,207 | 29 | | | 16,388 | 55,549 |
| Component Units | | | | | | 200 | 200 |
| Investments | 648 | 30,486 | 32,513 | | | 104,823 | 168,470 |
| Loans and Notes (net) | | 29 | | | | 51,768 | 51,797 |
| Other (net) | 4,079 | 803 | 6,031 | | 1,671 | 16,864 | 29,448 |
| Inventory | 1,774 | 16,463 | | | | 4,268 | 22,505 |
| Deferred Fiscal Charges and Other Assets | 840 | 353 | 68 | | | 1,345 | 2,606 |
| Total Assets | \$ 252,944 | \$ 178,673 | \$ 41,577 | \$ 210,981 | \$ 341,082 | \$ 719,970 | \$ 1,745,227 |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts Payable and Other Liabilities | \$ 64,737 | \$ 31,643 | \$ 40,246 | \$ | \$ | \$ 61,997 | \$ 198,623 |
| Payable To: | | | | | | | |
| Other Funds | 7,091 | 1,169 | 976 | | 14,803 | 29,422 | 53,461 |
| Component Units | 647 | 43 | 125 | | | 1,101 | 1,916 |
| Other Governments | 23,619 | 3,735 | 73 | | | 58,517 | 85,944 |
| Claims, Judgments and Compensated Absences | 68 | 10 | 14 | | | 128 | 220 |
| Deferred Revenue | 1,716 | 270 | | | | 41,662 | 43,648 |
| Total Liabilities | 97,878 | 36,870 | 41,434 | 0 | 14,803 | 192,827 | 383,812 |
| Fund Balances: | | | | | | | |
| Reserved For: | | | | | | | |
| Encumbrances | 15,474 | 10,969 | 8,036 | | | 16,667 | 51,146 |
| Inventories | 1,774 | 16,463 | | | | 4,268 | 22,505 |
| Debt Service | | | | | | 66,345 | 66,345 |
| School Perpetuity | | | | | | 26,340 | 26,340 |
| Noncurrent Assets | 3,856 | | | | | 51,752 | 55,608 |
| State Transportation Infrastructure Bank Projects | | 20,130 | | | | | 20,130 |
| Funds held as Permanent Investments | | | | 238,000 | 329,330 | 85,631 | 652,961 |
| Unreserved Designated for: | | | | | | | |
| Budget Reserve | 43,398 | | | | | | 43,398 |
| Land Purchase | | | | | | | 0 |
| Unreserved Undesignated, Reported In: | | | | | | | |
| General Fund | 90,564 | | | | | | 90,564 |
| Special Revenue Funds | | 94,241 | (7,893) | (27,019) | (3,051) | 275,992 | 332,270 |
| Capital Project Funds | | | | | | 148 | 148 |
| Total Fund Balances | 155,066 | 141,803 | 143 | 210,981 | 326,279 | 527,143 | 1,361,415 |
| Total Liabilities and Fund Balances | \$ 252,944 | \$ 178,673 | \$ 41,577 | \$ 210,981 | \$ 341,082 | \$ 719,970 | \$ 1,745,227 |

Reserved fund balance represents that portion of the governmental fund's equity which is not available for appropriation.

The amount reported here is the Budget Reserve Fund equity.

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

**STATE OF SOUTH DAKOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2010
(Expressed in Thousands)**

Total Fund Balances - Governmental Funds

\$ 1,361,415

This is the fund equity reported for governmental funds on pages 30-31.

Amounts reported for governmental activities in the statement of net assets are different because:

Investments
therefore not reported in the funds. These assets consist of:

| | |
|-----------------------------------|-------------|
| Land and Construction in Progress | 921,493 |
| Infrastructure | 3,250,871 |
| Other Capital Assets | 647,052 |
| Accumulated Depreciation | (1,557,714) |
| Total Capital Assets | |

Governmental funds do not report capital assets because their focus is on available spendable resources. This represents the value of capital assets used in governmental activities and associated depreciation on those assets reported in the government-wide statements.

3,261,702

Some of the state's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

14,694

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 assets.

29,857

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 | (278,045) |
| Accrued Interest on Bonds | (9,732) |
| Capital Leases | (18,276) |
| Compensated Absences | (44,895) |
| Unclaimed Property | (1,593) |
| Workers Compensation | (175) |
| Net OPEB Obligation | (9,740) |
| Pollution Remediation | (8,981) |
| Total Long-Term Liabilities | |

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

(371,437)

Net Assets of Governmental Activities

\$ 4,296,231

THE ABOVE STATEMENT APPEARS ON PAGE 37 OF THE SINGLE AUDIT REPORT.