

FY2008 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 FY2008 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 1-12) includes a financial overview, discussion of the State's economy and major initiatives, and the organizational structure for State government.
- The Financial Section (pages 13-155) 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 157-178) 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 13-14) 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 32-33) and the Statement of Activities (pages 34-35). 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 purchase, use, or directly benefit from goods, services or privileges provided by a given function; and, 2) grants and

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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 36-43), proprietary funds (pages 44-47), and fiduciary funds (pages 48-49). 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. A further breakdown of nonmajor fund financial amounts and component units can be found in the combining statements (pages 120-155).

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 measurement focus is similar to private enterprise reporting and attempts to answer the question of whether the

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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 179-241 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 243-248 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. The report also provides a listing of audit findings resulting in questioned costs and reportable conditions.

Findings, Questioned Costs and Corrective Action Plans

Pages 249-307 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, 2008
(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 59.

A breakdown of receivables appears in Note 4 on page 67.

Internal balances represent net short-term receivables and payables between funds.

Most investments are invested by the Investment Council. Note disclosure on investments appears on pages 59-66.

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

Liabilities are shown in order of maturity. A breakdown of what Accounts Payable and Other Liabilities represents is shown in the Notes on page 68.

The notes on pages 80-92 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 such as for the Dakota Cement Trust funds or other such funds created for specific purposes. Unrestricted Net Assets also include non-liquid assets such as inventories and receivables.

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
Assets				
Cash and Cash Equivalents	\$ 600,726	\$ 106,864	\$ 707,590	\$ 419,154
Receivables (Net)	339,992	327,146	667,138	1,556,558
Due From Component Units	959	33	992	
Due From Primary Government			0	1,561
Internal Balances	5,424	(5,424)	0	
Investments	773,863	118,411	892,274	883,625
Inventory	20,710	1,846	22,556	10,235
Deferred Fiscal Charges and Other Assets	7,882	1,579	9,461	16,676
Restricted Assets:				
Cash and Cash Equivalents	1	21	22	3,697
Investments	23,421	1,322	24,743	81,209
Other		938	938	64,125
Securities Lending Collateral	94,817	6,975	101,792	18,381
Capital Assets:				
Land and Other Non-depreciable Assets	690,227	295	690,522	36,277
Infrastructure (net)	1,884,751		1,884,751	
Property, Plant and Equipment (net)	367,203	2,270	369,473	374,566
Construction in Progress	192,149		192,149	89,700
Total Assets	5,002,125	562,276	5,564,401	3,555,764
Liabilities				
Accounts Payable and Other Liabilities	261,402	5,133	266,535	64,579
Due To Primary Government			0	992
Due To Component Units	1,561		1,561	
Accrued Interest Payable	8,541	2,098	10,639	15,425
Deferred Revenue	48,386	2,013	50,399	4,291
Securities Lending Collateral Liability	94,817	6,975	101,792	18,381
Noncurrent Liabilities:				
Due Within One Year	47,599	5,007	52,606	176,940
Due In More Than One Year	386,770	131,618	518,388	2,083,112
Total Liabilities	849,076	152,844	1,001,920	2,363,720
Net Assets				
Invested In Capital Assets, Net of Related Debt	3,053,427	2,565	3,055,992	310,893
Restricted For:				
Highways	65,594		65,594	
Agriculture and Natural Resources	86,491	1,302	87,793	
Health and Public Assistance	4,035	3,429	7,464	
Economic Development	22,282		22,282	
Debt Service	68,699	1,344	70,043	397,279
Capital Projects	2,461		2,461	
Unemployment Compensation		21,352	21,352	
Environmental Projects		241,119	241,119	
Energy Conservation Program	10,366		10,366	
Revolving Loan Programs		8,348	8,348	
Higher Education - Expendable			0	119,276
Higher Education - Nonexpendable			0	244,399
Funds held as Permanent Investments				
Expendable	64,741		64,741	
Nonexpendable	680,616		680,616	
Other Purposes	26,750	7,378	34,128	11,145
Unrestricted	67,587	122,595	190,182	109,052
Net Assets	\$ 4,153,049	\$ 409,432	\$ 4,562,481	\$ 1,192,044

Net Assets of \$4,153,049 represents Total Assets of \$5,002,125 less Total Liabilities of \$849,076.

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

THE ABOVE STATEMENT APPEARS ON PAGES 32-33 OF THE SINGLE AUDIT REPORT

**STATE OF SOUTH DAKOTA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)**

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. Taxes and other items not properly included as program revenues are reported as general revenues.

This represents the total cost of the function or program.

A list of what state agencies comprise the different functional classifications can be found on page 11.

Revenue sharing expense represents the distribution of state imposed taxes or fees to other units of government. An example would be motor vehicle licenses where the county retains a portion of the amount collected..

The totals being reported under in these rows represent the result of subtracting revenue from expenses. A (negative) amount identifies a function or program where program revenue did not cover the costs of operations. For Governmental Activities, a negative would often be funded from general revenues such as sales taxes. For Business-Type Activities, negative amounts are seldom funded from general revenue or from subsidies from governmental activities, although the State Fair would be an exception. Positive amounts, such as that reported for the Lottery, indicate revenues exceeding expenses. In the example of the Lottery, this excess was used to subsidize the General Fund. The subsidy was included in the Transfers Amount reported in the bottom part of the statement.

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets			Component Units
					Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government:								
Governmental Activities:								
→ General Government	\$ 175,272	\$ 147,597	\$ 12,635	\$	\$ (15,040)	\$	\$ (15,040)	
Education - Elementary, Secondary and Vocational Schools	200,226	3,451	158,644		(38,131)		(38,131)	
Education - State Support to Universities	170,348				(170,348)		(170,348)	
Health, Human and Social Services	1,127,618	25,858	713,061		(388,699)		(388,699)	
Law, Justice, Public Protection and Regulation	233,676	50,335	57,380		(125,961)		(125,961)	
Agriculture and Natural Resources	114,783	65,783	38,256	25,361	14,617		14,617	
Economic Resources	47,226	2,011	18,547		(26,668)		(26,668)	
Transportation	316,113	6,815	248,402	34	(60,862)		(60,862)	
Intergovernmental - Payments to School Districts	376,843				(376,843)		(376,843)	
Intergovernmental - Revenue Sharing	103,633				(103,633)		(103,633)	
Unallocated Interest Expense	22,805				(22,805)		(22,805)	
Unallocated Depreciation	58				(58)		(58)	
Total Governmental Activities	2,888,601	301,850	1,246,925	25,395	(1,314,431)	0	(1,314,431)	
Business-Type Activities:								
Lottery	33,419	156,241	870			123,692	123,692	
Clean Water State Revolving	4,486	4,826	5,212			5,552	5,552	
Drinking Water State Revolving	2,855	3,582	9,618			10,345	10,345	
Revolving Economic Development and Initiative	1,146	1,445	2,825			3,124	3,124	
Unemployment Insurance	23,409	28,037	1,396			6,024	6,024	
Second Injury	3,302	5,447	98			2,243	2,243	
State Fair	2,522	1,668	17			(837)	(837)	
Federal Surplus Property	3,830	3,958	23			151	151	
Rural Rehabilitation	798	409	396			7	7	
Prison Industries	2,580	2,807	178			405	405	
Health Insurance Risk Pool	5,436	5,011	489			64	64	
Professional and Licensing	6,269	6,393	575			699	699	
Banking and Insurance	2,483	1,902	75			(506)	(506)	
Other	2,913	2,075	107			(731)	(731)	
Total Business-Type Activities	95,448	223,801	21,879	0	0	150,232	150,232	
Total Primary Government	\$ 2,984,049	\$ 525,651	\$ 1,268,804	\$ 25,395	(1,314,431)	150,232	(1,164,199)	
Component Units:								
Housing Authority	\$ 127,966	\$ 163,199	\$	\$			\$ 35,233	
Science and Technology Authority	3,409	77	24,146				20,814	
Higher Education	554,326	266,652	123,904	6,817			(153,857)	
Nonmajor	1,264	1,047					(217)	
Total Component Units	\$ 686,965	\$ 430,975	\$ 148,050	\$ 6,817			(98,027)	

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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 69.

General Revenues:								
Taxes:								
Sales Taxes		668,123				668,123		
Motor Fuel Taxes		125,005				125,005		
Contractors Excise Taxes		79,137				79,137		
Bank Card and Franchise Taxes		62,036				62,036		
Other Taxes		264,944				264,944		
Unrestricted Investment Earnings		(18,946)				(18,946)	12,606	
State Aid							170,348	
Gain on Sale of Capital Assets		1,135				1,135		
Miscellaneous		41,805				41,805		
Additions to Endowments							18,184	
Transfers		122,251				(122,251)		
Total General Revenues, Additions to Endowments and Transfers		1,345,490				(122,251)	1,223,239	201,138
Changes in Net Assets		31,059				27,981	59,040	103,111
Net Assets - Beginning, as restated		4,121,990				381,451	4,503,441	1,088,933
Net Assets - Ending		\$ 4,153,049				\$ 409,432	\$ 4,562,481	\$ 1,192,044

The Change in Net Assets identify whether the State's financial position improved or (declined) during the year.

**STATE OF SOUTH DAKOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008
(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 120-155.

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	\$ 122,391	\$ 59,793	\$	\$ 8,736	\$ 21,234	\$ 340,562	\$ 552,716
Investments				238,314	359,102	199,868	797,284
Securities Lending Collateral	19,837	5,346		18,506	12,918	33,936	90,543
Receivables From:							
Taxes (net)	90,645	7,411				5,518	103,574
Interest and Dividends	3,530	310	3	662	1,358	3,129	8,992
Other Funds	48,488	1,778	34			14,953	65,253
Component Units						139	139
Other Governments	769	42,977	42,423			70,313	156,482
Loans and Notes (net)		258				42,462	42,720
Other (net)	1,450	168	767	3,186	2,128	19,516	27,215
Inventory	1,980	13,937				3,347	19,264
Deferred Fiscal Charges and Other Assets	398	113	66			795	1,372
Total Assets	\$ 289,488	\$ 132,091	\$ 43,293	\$ 269,404	\$ 396,740	\$ 734,538	\$ 1,865,554
Liabilities and Fund Balances							
Liabilities:							
Accounts Payable and Other Liabilities Payable To:	\$ 41,356	\$ 42,674	\$ 34,204	\$	\$	\$ 41,523	\$ 159,757
Other Funds	8,022	1,065	8,490		15,453	31,693	64,723
Component Units	113	35	137			1,121	1,406
Other Governments	39,997	4,777	107			41,367	86,248
Claims, Judgments and Compensated Absences	304	82	32			161	579
Deferred Revenue	9,837	3,202	258			47,374	60,671
Securities Lending Collateral Liability	19,837	5,346		18,506	12,918	33,936	90,543
Total Liabilities	119,466	57,181	43,228	18,506	28,371	197,175	463,927
Fund Balances:							
Reserved For:							
Encumbrances	23,109	5,168	30,814			9,481	68,572
Inventories	1,980	13,937				3,347	19,264
Debt Service						78,922	78,922
School Perpetuity						28,443	28,443
Noncurrent Assets	6,050	79				45,370	51,499
State Transportation Infrastructure Bank Projects		18,239					18,239
Funds held as Permanent Investments				238,000	329,330	85,631	652,961
Unreserved Designated for Budget Reserve	43,398						43,398
Unreserved Undesignated, Reported In:							
General Fund	95,485						95,485
Special Revenue Funds		37,487	(30,749)	12,898	39,039	283,709	342,384
Capital Project Funds						2,460	2,460
Total Fund Balances	170,022	74,910	65	250,898	368,369	537,363	1,401,627
Total Liabilities and Fund Balances	\$ 289,488	\$ 132,091	\$ 43,293	\$ 269,404	\$ 396,740	\$ 734,538	\$ 1,865,554

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, 2008
(Expressed in Thousands)**

Total Fund Balances - Governmental Funds

\$ 1,401,627

This is the fund equity reported for governmental funds on pages 34-35.

Amounts reported for governmental activities in the statement of net assets 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	881,920
Infrastructure	3,075,133
Other Capital Assets	588,525
Accumulated Depreciation	<u>(1,436,661)</u>
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.

3,108,917

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.

20,101

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.

28,164

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	(324,991)
Accrued Interest on Bonds	(8,541)
Capital Leases	(21,519)
Compensated Absences	(44,955)
Unclaimed Property	(1,690)
Workers Compensation	(213)
Net OPEB Obligation	<u>(3,851)</u>
Total Long-Term Liabilities	

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

(405,760)

Net Assets of Governmental Activities

\$ 4,153,049

THE ABOVE STATEMENT APPEARS ON PAGE 39 OF THE SINGLE AUDIT REPORT.