STATE OF SOUTH DAKOTA

DEPARTMENT OF LABOR AND REGULATION

SOUTH DAKOTA REAL ESTATE COMMISSION

BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 and 2013

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA REAL ESTATE COMMISSION

Table of Contents

	Page
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	1-2
SCHEDULE OF PRIOR AUDIT FINDING	3
SCHEDULE OF CURRENT AUDIT FINDING	4
INDEPENDENT AUDITOR'S REPORT	5-6
FINANCIAL STATEMENTS	
Net Position - Cash Basis	7
Revenues Collected, Expenses Paid and Changes in Net Position - Cash Basis	8
Cash Flows	9
Notes to Financial Statements	10-14

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA REAL ESTATE COMMISSION
LISTING OF COMMISSION MEMBERS
JUNE 30, 2014

Officials of the Commission:

Chairman:	Matt Krogman
Vice-Chairman:	David Bonde
Commissioners:	Paula Lewis
	Doug Nelson
	Mark Wahlstrom
Executive Director:	Melissa Miller

EAST, VANDER WOUDE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Paul T. East, CPA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Dennis Daugaard
Governor of South Dakota
and
Marcia Hultman, Secretary
South Dakota Department of Labor and Regulation
and
South Dakota Real Estate Commission
Pierre, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the South Dakota Real Estate Commission, an enterprise fund of the State of South Dakota, as of June 30, 2014 and 2013 and for the years then ended, and the related notes to the financial statements, which collectively comprise the South Dakota Real Estate Commission's basic financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control Over Financial Reporting, continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

East, Vander Woude & Co, PC

East, Vander Woude & Co., P.C.
Sioux Falls, South Dakota
October 29, 2015

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA REAL ESTATE COMMISSION
SCHEDULE OF PRIOR AUDIT FINDING

STATUS OF PRIOR AUDIT FINDINGS

Finding 2012-01:

There are no findings for the two year audit period ended June 30, 2012.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA REAL ESTATE COMMISSION
SCHEDULE OF CURRENT AUDIT FINDING

Finding No. 2014-01:

There are no findings for the two year audit period ended June 30, 2014.

EAST, VANDER WOUDE & CO., P.C.
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INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota
and
Marcia Hultman, Secretary
South Dakota Department of Labor and Regulation
and
South Dakota Real Estate Commission
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying statements of net position-cash basis of the South Dakota Real Estate Commission, an enterprise fund of the State of South Dakota, as of June 30, 2014 and 2013 and the related statements of revenues collected, expenses paid and changes in net position-cash basis and cash flows for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

Auditor's Responsibility, continued

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis net position of the business-type activities of the South Dakota Real Estate Commission, an enterprise fund of the State of South Dakota, as of June 30, 2014 and 2013, and the related statements of revenue collected, expenses paid and changes in net position-cash basis and cash flows for the years ended June 30, 2014 and 2013 in accordance with the cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, these financial statements present only the South Dakota Real Estate Commission, an enterprise fund of the State of South Dakota and do not purport to, and do not present fairly the financial position of the State of South Dakota as of June 30, 2014, and 2013 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only an enterprise fund and not the State of South Dakota, management has chosen not to present a Management's Discussion and Analysis for the enterprise fund that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2015 on our consideration of the South Dakota Real Estate Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Real Estate Commission's internal control over financial reporting and compliance.

East, Vander Woude & Co, PC

East, Vander Woude & Co., P.C.
Sioux Falls, South Dakota
October 29, 2015

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA REAL ESTATE COMMISSION
STATEMENTS OF NET POSITION - CASH BASIS
JUNE 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets		
Cash, on deposit with State Treasurer		
Recovery Fund Account (Reserved per SDCL 36-21A-101)	$ 100,000	$ 100,000
Unrestricted	299,227	305,863
Total cash and current assets	399,227	405,863
LIABILITIES		
Current liabilities	-	-
NET POSITION		
Restricted due to recovery fund account	100,000	100,000
Unrestricted	299,227	305,863
Total net position	$ 399,227	$ 405,863

See Notes to Financial Statements.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA REAL ESTATE COMMISSION
STATEMENTS OF REVENUES COLLECTED, EXPENSES PAID
AND CHANGES IN NET POSITION - CASH BASIS
YEARS ENDED JUNE 30, 2014 and 2013

	2014	2013
OPERATING REVENUES COLLECTED		
Licenses, permits and fees	$ 384,677	$ 310,945
Seminars	69,910	61,345
Book, directory and code book sales	12,571	12,695
Other revenues	12,350	16,350
TOTAL OPERATING REVENUES COLLECTED	479,508	401,335
OPERATING EXPENSES PAID		
Salaries	222,724	214,030
Legal and professional fees	83,231	72,370
Employee benefits	76,386	68,311
State services provided	30,421	43,235
Travel	21,127	23,663
Printing and newsletter	15,536	7,187
Occupancy	14,130	14,108
Postage	6,381	5,137
Telephone	5,982	6,277
Miscellaneous	4,450	5,329
Commission member per diem	4,260	4,200
Seminars and continuing education	3,770	2,809
Supplies	3,093	1,532
Dues and subscriptions	1,872	2,339
Equipment purchased	1,459	7,072
Audit	-	3,900
TOTAL OPERATING EXPENSES PAID	494,822	481,499
OPERATING INCOME (LOSS)	(15,314)	(80,164)
NONOPERATING INCOME		
Interest income	8,678	15,239
CHANGE IN NET POSITION	(6,636)	(64,925)
BEGINNING NET POSITION	405,863	470,788
ENDING NET POSITION	$ 399,227	$ 405,863

See Notes to Financial Statements.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA REAL ESTATE COMMISSION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	$ 467,158	$ 384,985
Payments to Suppliers	(161,031)	(151,723)
Payments to Employees	(303,370)	(286,541)
Internal Activity - Payments to Other Funds	(30,421)	(43,235)
Other Receipts	12,350	16,350
Net Cash Provided (Used) by Operating Activities	(15,314)	(80,164)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	8,678	15,239
Net Cash Provided (Used) by Investing Activities	8,678	15,239
Net Increase (Decrease) in Cash	(6,636)	(64,925)
Cash Balance - Beginning	405,863	470,788
Cash Balance - Ending	$ 399,227	$ 405,863

See Notes to Financial Statements.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR AND REGULATION
SOUTH DAKOTA REAL ESTATE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 and 2013

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

The South Dakota Real Estate Commission is an enterprise fund of South Dakota state government and is an adjunct of the Department of Labor and Regulation. These financial statements present only this enterprise fund and do not purport to, and do not, present fairly the financial position of the State of South Dakota, and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only an enterprise fund and not the State of South Dakota, management has chosen not to present a Management's Discussion and Analysis for the enterprise fund that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

The South Dakota Real Estate Commission, which consists of five members appointed by the Governor, administers and enforces the rules and regulation regarding the real estate industry. The Commission is responsible for the examination, licensure/certification and renewal of licenses. The Commission has an education program that approves real estate courses and instructors. This program also sponsors educational seminars twice a year. The Commission's compliance program consists of compliance officers who audit the trust accounts and transaction files of all real estate sales and property management firms. The compliance officers investigate complaints filed with the Commission.

The Commission is required by statute to maintain a deposit of $100,000 with the State Treasury exclusively for the payment of unsatisfied judgments against licensees. This amount is not available for use in the operation of the Commission.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting:

The Commission's accounts are maintained on a cash basis and the accompanying financial statements reflect only cash received and disbursed. Therefore, receivables and payables, accrued income and expenses and depreciation, which may be material in amount, are not reflected in the accompanying financial statements which are not intended to present the financial position or results of operations in conformity with generally accepted accounting principles.

Fund Accounting:

The Commission is accounted for as an enterprise fund. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be funded by license fees.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting, continued:

The Commission distinguishes operating revenues and expenses from non-operating items. Operating revenues relate to activities associated with the license application and renewal fees of real estate professionals and course providers. Other operating revenues derived from registration fees of subdivisions and condominium and timeshare projects. Expenses include the costs of operating the Commission, including personnel, contractual services, and administration. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. Non-operating revenues include interest income from cash invested with the State Treasury.

The Commission is statutorily required to only use unrestricted net position when an expense is incurred. Restricted net position can only be used for the payment to consumers who have unsatisfied judgments against licensees.

Fund Revenue and Expense Classifications:

In the Statement of Revenues Collected, Expenses Paid and Changes in Net Position-Cash Basis, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, or investing activities are not reported as components of operating revenues or expenses.

Equity:

Equity is classified as net position and displayed in two components:

1. Restricted net position - consists of net position with constraints placed on the used either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
2. Unrestricted net position – all other net position that do not meet the definition of "restricted."

Budgets:

Since the Commission is considered an enterprise fund, the Commission is not legally required to adopt a budget. However, the Department of Labor and Regulation presents an informational budget to the Appropriations Committee of the South Dakota State Legislature.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents:

The Commission's cash is represented by a participating interest in the State's pooled investment fund held by the State Treasurer. Funds not required for current operations are required by SDCL 4-5-23 to be transferred to the state investment officer, who is restricted by SDCL 4-5-26 to investing the funds in certain types of investments. The Commission receives a proportionate share of interest income under SDCL 4-5-30. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501.

NOTE 3. RETIREMENT PLAN

All employees, except for those working less than 20 hours per week and seasonal help, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Commission's share of contributions to the SDRS for the fiscal years ended June 30, 2014, 2013 and 2012 were $16,141, $12,838 and $12,656, respectively, equal to the required contributions each year.

NOTE 4. COMPENSATED ABSENCES

The Commission allows employees to earn annual leave and sick leave. Full-time employees earn 15 days annual leave per year which can be accumulated to a maximum of 30 days, except for employees with more than 15 years of employment, who earn 20 days annual leave per year which can be accumulated to a maximum of 40 days. Upon termination, employees receive payment for their accumulated annual leave. Employees earn 14 days sick leave per year. Unless dismissed for cause, employees who terminate after seven years of continuous employment receive payment for one-fourth of their accumulated sick leave balance, not to exceed 480 hours.

As of June 30, 2014, the liability for unused annual leave and unused sick leave was $39,257. As of June 30, 2013, the liability for unused annual leave and unused sick leave was $36,053. These liabilities for compensated absences are not shown on the financial statements as the financial statements are prepared on the cash basis of accounting.

NOTE 5. OPERATING LEASE

Effective March 1, 2005, the Commission entered into an operating lease for office space for $1,157.50 per month. The term of this lease is for 10 years terminating on February 28, 2015. The Commission is responsible for certain utilities. Rent payments are payable from licensing and registration fees.

The lease was renewed August 1, 2015. See Note 7. Subsequent Events.

Total rent expense for the lease is as follows:

	Year Ended June 30,	
	2014	2013
Minimum lease payments	$13,890	$13,890
Utilities	240	218
	$14,130	$14,108

NOTE 6. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The Commission participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, 2) coverage of employee medical claims through the State's health insurance program, 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, 4) coverage for workers' compensation benefits through the State's Worker's Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Statement.

NOTE 7. SUBSEQUENT EVENT

On August 1, 2015, the Commission entered into an operating lease for office space for $2,315 a month for ten years terminating on July 31, 2025. The Commission is responsible for certain utilities.

The Commission sublets half of the building space to a state agency for half of the rent in August 2015 through October 2015 and another state agency beginning January 2016.

Future minimum lease payments under the lease are as follows for each of the years ending June 30,

	Operating Lease	Less Sublease	Net
2015	$ 25,465	$ 10,418	$ 15,047
2016	27,780	13,890	13,890
2017	27,780	13,890	13,890
2018	27,780	13,890	13,890
2019	27,780	13,890	13,890
2020 - 2024	138,900	69,450	69,450
2025	2,315	1,158	1,157
Total	$277,800	$136,586	$141,214