SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT AND INITIATIVE FUND

AUDIT REPORT

Fiscal Year Ended June 30, 2026

State of South Dakota
Department of Legislative Audit
427 South Chapelle
c/o 500 East Capitol
Pierre, SD 57501-5070

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
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RUSSELL A. OLSON
AUDITOR GENERAL

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 Larry Rhoden
Governor of South Dakota

and

South Dakota Board of Economic Development

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 South Dakota Revolving Economic Development and Initiative Fund (REDI Fund), an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the REDI Fund's basic financial statements and have issued our report thereon dated November 4, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the South Dakota Board of Economic Development's internal control over financial reporting (internal control) as a basis for designing 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 South Dakota Board of Economic Development's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Board of Economic Development'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.

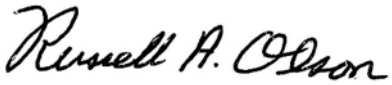
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Board of Economic Development's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 entity'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 a matter of public record and its distribution is not limited.



Russell A. Olson, Auditor General
Pierre, South Dakota

November 4, 2026

BOARD OF ECONOMIC DEVELOPMENT

CURRENT AUDIT FINDING AND RECOMMENDATION

There are no current audit findings to report.

PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Finding:

Finding No. 2025-001: Ineffective Internal Controls Over Financial Reporting
Properly designed controls over financial reporting prevent and detect misstatements in the financial statements and accompanying notes to the financial statements to ensure they are materially accurate.

This finding has been resolved.

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RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Larry Rhoden
Governor of South Dakota

and

South Dakota Board of Economic Development

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the South Dakota Revolving Economic Development and Initiative Fund (REDI Fund), an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2026, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the REDI Fund, an enterprise fund of the State of South Dakota, as of June 30, 2026, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the South Dakota Board of Economic Development and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Notes 1 and 2A, the financial statements present only the REDI Fund, 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, 2026, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 13 to the financial statements, the REDI Fund has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements*, for the year ended June 30, 2026. Accordingly, revenues and expenses have been reclassified within the statement of revenues, expenses, and changes in fund net position to comply with the new reporting model. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control 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 for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the South Dakota Board of Economic Development's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2026, on our consideration of the South Dakota Board of Economic Development's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the South Dakota Board of Economic Development's 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 the South Dakota Board of Economic Development's internal control over financial reporting and compliance.



Russell A. Olson, Auditor General
Pierre, South Dakota

November 4, 2026

South Dakota Revolving Economic Development and Initiative Fund
Statement of Net Position
June 30, 2026

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 83,477,248
Accounts Receivable	96,614
Loan Interest Receivable	66,442
Investment Income Receivable	451,655
Current Loans Receivable, Net	5,678,747
Total Current Assets	89,770,706
Noncurrent Assets:	
Right-of-use Asset - Software	125,213
Accumulated Amortization - Software	(66,259)
Restricted Net Pension Asset	541
Noncurrent Portion of Loans Receivable, Net	64,858,600
Total Noncurrent Assets	64,918,095
TOTAL ASSETS	154,688,801
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources - Related to Pensions	60,071
LIABILITIES	
Current Liabilities:	
Accounts Payable	2,975
Wages Payable	38,270
Accrued Leave Liability	8,532
Accrued Interest - Software	1,766
Current Liability - Software	17,722
Due to Other Funds	11,059
Total Current Liabilities	80,324
Noncurrent Liabilities:	
Noncurrent Portion of Accrued Leave Liability	13,311
Noncurrent Portion of Liability - Software	42,328
Total Noncururrent Liabilities	55,639
TOTAL LIABILITIES	135,963
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources - Related to Pensions	29,054

The accompanying notes are an integral part of this statement.

South Dakota Revolving Economic Development and Initiative Fund
Statement of Net Position (Continued)
June 30, 2026

NET POSITION	
Net Investment in Capital Assets	(1,096)
Restricted for South Dakota Jobs Grant Program	1,791,567
Restricted for Disaster Relief Fund	2,030,555
Restricted for Pension Benefits	31,558
Unrestricted	150,731,271
TOTAL NET POSITION	$154,583,855

The accompanying notes are an integral part of this statement.

South Dakota Revolving Economic Development and Initiative Fund
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2026

OPERATING REVENUES	
Interest Income on Loans	$ 1,147,947
Other Income	351,602
Total Operating Revenue	1,499,549
OPERATING EXPENSES	
Personal Services and Benefits	419,522
Travel	18,685
Contractual Services	332,169
Supplies and Materials	35,796
Grants and Subsidies	10,462
Provision for Loan Losses	411,623
Total Operating Expenses	1,228,257
Operating Income	271,292
NONCAPITAL SUBSIDIES	
Receipt from Economic Development Finance Authority for Redeployment of Capital	2,500,000
Transfers In from SD Works Legacy	6,000,000
Transfer In from General Fund	400,865
Transfer Out to SD Works Legacy from Disaster Relief Fund	(8,969,685)
Total Noncapital Subsidies	(68,820)
Operating Income and Noncapital Subsidies	202,472
OTHER NONOPERATING REVENUES AND EXPENSES	
Investment Income	3,238,247
Amortization of Subscription	(18,552)
Investment Expense	(21,644)
Total Other Nonoperating Revenues and Expenses	3,198,051
CHANGE IN NET POSITION	3,400,523
NET POSITION - BEGINNING	151,183,332
NET POSITION - ENDING	$ 154,583,855

The accompanying notes are an integral part of this statement.

South Dakota Revolving Economic Development and Initiative Fund
Statement of Cash Flows
For the Year Ended June 30, 2026

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Loan Repayments	$ 6,820,587
Payments for Loans Originated	(31,600,431)
Receipts from Loan Interest	1,129,430
Receipts from Customers and Users	351,602
Grants and Subsidies - Building South Dakota Funds	(10,462)
Payments for Employee Services and Benefits	(402,769)
Payments to Suppliers and for Claims	(412,362)
Net Cash Used by Operating Activities	(24,124,405)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payment from Economic Development Finance Authority	2,500,000
Payment to SD Works from Disaster Relief Fund	(8,969,685)
Payments from General Fund for Personal Services and Benefits	400,865
Receipts from Transfers In	6,000,000
Net Cash Used by Noncapital Financing Activities	(68,820)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Interest Payments for Subscription Agreements	(2,258)
CASH FLOWS FROM INVESTING ACTIVITIES	
Pooled Investment Income	3,440,106
Investment Fees Paid	(19,386)
Net Cash Provided by Investing Activities	3,420,720
NET DECREASE IN CASH AND CASH EQUIVALENTS	(20,774,763)
CASH AND CASH EQUIVALENTS - BEGINNING	104,252,011
CASH AND CASH EQUIVALENTS - ENDING	$ 83,477,248
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Income	$ 271,292
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Loans Receivable	(24,332,405)
Loan Interest Receivable	(18,517)
Accounts Receivable	(35,816)
Net Pension Asset	(256)
Deferred Outflows of Resources	(6,929)
Accounts Payable	(10,407)
Wages Payable	27,043
Accrued Leave Liability	4,127
Due to Other Funds	843
Subscription Activities	(16,148)
Deferred Inflows of Resources	(7,232)
NET CASH USED BY OPERATING ACTIVITIES	$ (24,124,405)

The accompanying notes are an integral part of this statement.

South Dakota Revolving Economic Development and Initiative Fund
Notes to the Financial Statements
June 30, 2026

NOTE 1 - AUTHORIZING LEGISLATION

The South Dakota Revolving Economic Development and Initiative Fund (REDI Fund) was created in 1987 by an act of the South Dakota Legislature. The REDI Fund was established for the purpose of making loans for economic development. The REDI Fund is a fund of the State of South Dakota and is administered by the Governor's Office of Economic Development (GOED) with oversight provided by the Board of Economic Development.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FUND ACCOUNTING

The REDI Fund is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises. The REDI Fund is a part of the State of South Dakota and, as such, the accompanying financial statements are included in the Annual Comprehensive Financial Report of the State of South Dakota.

B. BASIS OF ACCOUNTING

The REDI Fund follows the accrual basis of accounting. This method of accounting recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings and services provided to others, are reported as nonoperating.

C. CASH AND INVESTMENTS

Cash includes cash on hand and the participating interest in the State's internal investment pool held by the State Treasurer and is used for the purposes of reporting cash flows. The amount held in the State's internal investment pool is reported at fair value.

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 writing to the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501 or by calling (605)773-3595.

D. CAPITAL ASSETS

Assets are capitalized based on policies established by the South Dakota Bureau of Finance and Management. Capital assets are capitalized at cost or, if the original cost is unavailable, estimated historical cost. Equipment is capitalized when the cost of individual items is $10,000 or more. Depreciation on capital assets is computed using the straight-line method over the estimated useful lives of the assets, which are 3 to 10 years for all assets. When assets are disposed of, the costs and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the results from operations in the period of disposal. The REDI Fund had no depreciable assets for the year ending June 30, 2026.

E. LOANS RECEIVABLE

Loans receivable on June 30, 2026 is shown net of the allowance for doubtful loans of $1,062,749.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. SERVICES PROVIDED TO OTHERS

Earnings on the REDI Fund may be used for the administrative costs of the Division of Finance of the GOED per SDCL 1-16G-24.

G. LEASES

In situations where the REDI Fund is a lessee, the REDI Fund recognizes a lease liability and an intangible right-of-use lease asset (lease asset). The REDI Fund recognizes lease liabilities with an initial, individual value of $10,000 or more.

At the commencement of a lease, the REDI Fund initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include the determination of (1) the discount rate used to discount expected lease payments to present value, (2) lease term, and (3) lease payments.

- The REDI Fund uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the estimated incremental borrowing rate is used as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the REDI Fund is reasonably certain to exercise.

The REDI Fund monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

In situations where the REDI Fund is a lessor for a noncancellable lease, a lease receivable and deferred inflow of resources are reported in the financial statements.

At the commencement of a lease, the REDI Fund initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include determinations of (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The REDI Fund uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The REDI Fund monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount in the lease receivable.

The REDI Fund did not have any lease agreements in which it was the lessee or lessor as of June 30, 2026.

H. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The REDI Fund has entered into subscription-based information technology arrangements (SBITAs) with vendors to use vendor-provided information technology. The REDI Fund recognizes a subscription liability and an intangible right-to-use subscription asset (subscription asset) in the financial statements. The REDI Fund recognizes liabilities with an initial individual value of $10,000 or more.

At the commencement of a subscription, the REDI Fund initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is measured at the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain implementation costs. The subscription asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to subscriptions include the determination of (1) the discount rate used to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The REDI Fund uses the interest rate charged by the vendor as the discount rate. When the interest rate charged by the vendor is not provided, the REDI Fund generally uses its estimated incremental borrowing rate as the discount rate for subscriptions.
- The subscription term includes the noncancelable period of the subscription. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and the purchase option price that the REDI Fund is reasonably certain to exercise.

The REDI Fund monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with noncurrent assets and subscription liabilities are reported with long-term liabilities on the Statement of Net Position.

I. USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

J. PENSION REPORTING

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. NET POSITION

Net position is classified into the following three components:

Net Investment in Capital Assets - Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position - Consists of net position with constraints placed on its use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) constraints imposed by law through constitutional or enabling legislation.

Unrestricted Net Position - Consists of all other net position that does not meet the definition of net investments in capital assets or restricted.

L. RESTRICTED RESOURCES

When both restricted and unrestricted resources are available for use, it is the REDI Fund's policy to use restricted resources first, and then unrestricted resources as they are needed.

M. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent the consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that apply to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

N. LONG-TERM LIABILITIES

Long-term liabilities consist of annual leave earned by staff and obligations for subscription liabilities.

NOTE 3 - SOUTH DAKOTA JOBS GRANT PROGRAM ACTIVITY

During the 2013 legislative session, the South Dakota Jobs Grant Program was created within the REDI Fund. An original deposit of $350,000 was deposited in the fiscal year ending June 30, 2013. The Board of Economic Development may provide grants to project owners for new or expanded facilities with project costs less than $20,000,000 or for equipment upgrades with project costs less than $2,000,000.

The following is a breakdown of the activity in the subfund for fiscal year 2026 and its corresponding restricted net position at June 30, 2026:

	South Dakota Jobs Subfund
Net Position - Beginning	$ 1,721,994
Investment Income	80,035
Grants and Subsidies	(10,462)
Net Position - Ending	$ 1,791,567

NOTE 4 - DISASTER RELIEF SUBFUND ACTIVITY

During the 2020 legislative session, the Disaster Relief Subfund was created within the REDI Fund. The legislature designated $7,000,000 from the Small Business Credit Initiative Fund and $1,000,000 from the Governor's Office of Economic Development Special Revenue Fund for the purpose of making loans for the COVID-19 pandemic emergency. The legislature also designated approval for a grant from the Economic Development Finance Authority (EDFA) for the purpose of this fund in the amount of $1,500,000.

The following is a breakdown of the activity in the subfund for fiscal year 2026:

	Disaster Relief Subfund
Cash Balance - Beginning	$ 10,969,685
Repayment of Loans	18,056
Transfers Out	(8,969,685)
Cash Balance - Ending	$ 2,018,056

NOTE 5 - INTERFUND PAYABLE BALANCES

Amounts included in due to other funds include $11,059 as of June 30, 2026. This balance represents allocations of central service billings related to contractual services expenses and personal services and benefits to REDI that are owed to the state and were paid subsequent to year-end.

NOTE 6 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2026 is as follows:

	Balance at June 30, 2025	Additions	Deletions	Balance at June 30, 2026
Capital Assets Being Amortized:				
Right-of-use Asset - Software	$ 125,213	$ -	$ -	$ 125,213
Less Accumulated Amortization for:				
Right-of-use Asset - Software	(47,707)	(18,552)	-	(66,259)
Total Capital Assets, Net	$ 77,506	$ (18,552)	$ -	$ 58,954

NOTE 7 - COMMITMENTS

As of June 30, 2026, the REDI Fund had the following commitments:

REDI Fund Loans Approved by the South Dakota Board of Economic Development but Not Disbursed at June 30, 2026	$ 27,727,175

NOTE 8 - LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2026 is as follows:

	Balance at June 30, 2025	Additions	Deletions	Balance at June 30, 2026	Due Within One Year
Accrued Leave Liability	$ 17,716	$ 4,127	$ -	$ 21,843	$ 8,532
Subscriptions	75,737	-	(15,687)	60,050	17,722
	$ 93,453	$ 4,127	$ (15,687)	$ 81,893	$ 26,254

Subscriptions relate to software used for the REDI Fund's loan platform. The subscription contract period is from September 5, 2024 through September 4, 2029 and requires payments upfront. Annual subscription fees have an escalation clause but are expensed on a straight-line basis over the term of the agreement. The discount rate used to determine the liability was based on the State of South Dakota's incremental borrowing rate and was 3.59% at the time the agreement was initiated. There are no variable payments related to this agreement. Future principal and interest on subscription payments as of June 30, 2026 are as follows:

Year	Principal	Interest	Total
2027	$ 17,722	$ 2,156	$ 19,878
2028	19,948	1,520	21,468
2029	22,380	806	23,186
	$ 60,050	$ 4,482	$ 64,532

All full-time and permanent part-time employees earn vacation leave and sick leave. Employees earn fifteen days of vacation leave per year that can be accumulated to thirty days, except for employees with more than fifteen years of employment, who earn twenty days of vacation leave per year that can be accumulated to forty days. Annual leave can be used during the term of the employee's employment or, upon termination, employees will receive payment for their accumulated vacation leave. Employees earn fourteen days of sick leave per year. Sick leave can be used during the term of the employee's employment or upon termination 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 four hundred eighty hours. A liability has been estimated and recorded in the financial statements for compensated absences based on a first-in, first-out flow assumption for the estimated leave to be used by the employees during the term of their employment as well as the remaining portion of the employees' balances to be paid upon termination. The total leave liability of $21,843 as of June 30, 2026 is shown as short- and long-term liabilities on the Statement of Net Position.

NOTE 9 - RETIREMENT

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan-type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at http://sdrs.sd.gov/publication.aspx or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098, or by calling (605)773-3731.

Benefits Provided

SDRS has four classes of members: Class A general members; Class B public safety and judicial members; Class C Cement Plant Retirement Fund members; and Class D Department of Labor and Regulation members.

Members who were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation judicial members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members, where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members, where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members, where the sum of age and credited service is equal to or greater than 75. All Foundation member retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60% joint survivor benefit when the member dies.

Members who were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60% joint and survivor benefit, or a 100% joint and survivor benefit. All Generational member retirements that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5% of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
    - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.

NOTE 9 - RETIREMENT (CONTINUED)

- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater than or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5% to 0.0%.

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

Contributions

Per SDLC 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution.

The GOED's contributions to the SDRS for the fiscal years ended June 30, 2026, 2025, and 2024 were $15,132, $11,367, and $11,839, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources to Pensions

As of June 30, 2025, SDRS was 100.06% funded and accordingly had a net pension asset. As of June 30, 2026, the GOED reported an asset of $541 for the REDI Fund's proportionate share of the net pension asset for the measurement period ending June 30, 2025. As of June 30, 2026, deferred outflows of resources and deferred inflows of resources related to the pension were reported from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 18,539	$ -
Changes of Assumption	-	28,742
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	26,383	-
Changes in Proportional Share	17	312
Pension Contributions After Measurement Date	15,132	-
	$ 60,071	$ 29,054

$15,132 reported as deferred outflows of resources related to pensions resulting from GOED contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ending June 30, 2027. Other amounts in the table above will be recognized in pension expense (revenue) in future years.

NOTE 9 - RETIREMENT (CONTINUED)

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.5% net of plan investment expense. This is composed of an average inflation rate of 2.5% and real returns of 4.0%.
Future COLAs	1.56%

Mortality Rates

All mortality rates are based on Pub-2010 amount-weighted mortality tables projected generationally with improvement scale MP-2020.

Active and Terminated Vested Members:

- Teachers, Certified Regents, and Judicial: PubT-2010
- Other Class A Members: PubG-2010
- Public Safety Members: PubS-2010

Retired Members:

- Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
- Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
- Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries: PubG-2010 contingent survivor mortality table

Disabled Members:

- Public Safety: PubS-2010 disabled member mortality table
- Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

NOTE 9 - RETIREMENT (CONTINUED)

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed-income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2025 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	2.3%
High Yield Debt	7.0%	2.9%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
	100.0%	

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

NOTE 10 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2026 were as follows:

Transfers:	
From SD Works Legacy Fund for Redeployment of Capital	$ 6,000,000
From General Fund for Personal Services and Benefits	400,865
To SD Works Legacy for Return of Disaster Relief Funds	(8,969,685)
	$ (2,568,820)

Interfund transfers relate to the reallocation of revolved loan funds to be redeployed under other programs and General Fund support to REDI Fund.

NOTE 11 - RECEIPT FROM ECONOMIC DEVELOPMENT AND INITIATIVE FUND

During the year ended June 30, 2026, REDI Fund received $2,500,000 from the Economic Development Finance Authority (EFDA) (a discretely presented component unit of the State of South Dakota). These funds were made available out of excess capital reserves held by EFDA.

NOTE 12 - RISK MANAGEMENT

The GOED 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 GOED 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, medical malpractice 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 Workers' Compensation Fund, and 5) coverage for property information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Annual Comprehensive Financial Report.

REDI Fund does not carry additional insurance to cover claims in excess of upper limits. Settled claims resulting from these risks have not exceeded the liability coverage for the past three years.

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLE

Effective for the fiscal year ended June 30, 2026, the REDI Fund implemented GASB Statement No. 103, *Financial Reporting Model Improvements*. Implementation of this Statement is reported as a change in accounting principle in accordance with GASB Statement No. 100.

GASB 103 affected only the presentation of the proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Position and the format. These changes did not affect the measurement or recognition of assets, liabilities, deferred inflows/outflows of resources, or resource flows; therefore, no restatement of beginning net position, fund balances, or fund net position was required.

NOTE 14 - RELATED PARTIES

During FY26, the Board of Economic Development approved a $7,500,000 REDI Fund Loan to Elevate Rapid City as recommended by staff under the supervision of the Director of Operations for the Governor's Office of Economic Development (GOED). Prior to closing and disbursing the loan in FY27, the Director of Operations at GOED took an executive position with Elevate Rapid City. The Director of Operations recused himself from all grant and loan discussions relating to Elevate as soon as he applied for employment with Elevate. The Commissioner of GOED granted the former Director of Operations a waiver under SDCL 5-18A-17.3.

NOTE 15 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date these financial statements were available to be issued.