

**SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND**

AUDIT REPORT

Fiscal Year Ended June 30, 2024



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

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
TABLE OF CONTENTS

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 <i>Government Auditing Standards</i>	1
Independent Auditor's Report	3
Financial Statements:	
Statement of Net Position	5
Statement of Revenues, Expenses, and Changes in Net Position	7
Statement of Cash Flows	8
Notes to the Financial Statements	9



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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 Kristi Noem
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, 2024, 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 October 11, 2024.

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.

A handwritten signature in black ink that reads "Russell A. Olson". The signature is written in a cursive, flowing style.

Russell A. Olson, Auditor General
Pierre, South Dakota

October 11, 2024



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RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Kristi Noem
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, 2024, 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, 2024, 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, 2024, 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.

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 October 11, 2024, 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

October 11, 2024

South Dakota Revolving Economic Development and Initiative Fund
Statement of Net Position
June 30, 2024

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 102,026,557
Accounts Receivable	13,912
Loan Interest Receivable	29,070
Investment Income Receivable	554,183
Loans Receivable, Net	<u>6,474,051</u>
Total Current Assets	<u>109,097,773</u>

Noncurrent Assets:

Right of Use Asset - Software	32,442
Accumulated Amortization - Software	(29,794)
Assets Held for Resale	321,037
Restricted Net Pension Asset	726
Noncurrent Portion of Loans Receivable, Net	<u>28,899,378</u>
Total Noncurrent Assets	<u>29,223,789</u>

TOTAL ASSETS 138,321,562

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources - Related to Pensions	<u>62,065</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	15,191
Wages Payable	22,275
Accrued Leave Liability	12,994
Due to Other Funds	<u>3,779</u>
Total Current Liabilities	<u>54,239</u>

Noncurrent Liabilities:

Noncurrent Portion of Accrued Leave Liability	<u>10,892</u>
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TOTAL LIABILITIES 65,131

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources - Related to Pensions	<u>36,348</u>
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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, 2024

NET POSITION

Net Investment in Capital Assets	2,648
Restricted for South Dakota Jobs Grant Program	1,675,438
Restricted for Disaster Relief Fund	10,666,805
Restricted for Pension Benefits	26,443
Unrestricted	<u>125,910,814</u>

TOTAL NET POSITION	<u>\$ 138,282,148</u>
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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, 2024

OPERATING REVENUE

Interest Income on Loans	\$ 731,941
Other Income	<u>58,313</u>
Total Operating Revenue	<u>790,254</u>

OPERATING EXPENSES

Personal Services and Benefits	326,841
Travel	7,495
Contractual Services	309,308
Supplies and Materials	679
Provisions for Loan Recovery	<u>(480,646)</u>
Total Operating Expenses	<u>163,677</u>
Operating Income	<u>626,577</u>

NONOPERATING REVENUES (EXPENSES)

Investment Income	4,902,663
Amortization of Subscription	(14,897)
Other Expenses	<u>(18,633)</u>
Net Nonoperating Revenues (Expenses)	<u>4,869,133</u>

CHANGE IN NET POSITION 5,495,710

BEGINNING NET POSITION 132,786,438

ENDING NET POSITION \$ 138,282,148

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, 2024

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts for Loan Repayments	\$ 10,467,188
Payments for Loans Originated	(3,468,500)
Receipts for Loan Interest	759,957
Receipts from Customers and Users	58,313
Payments for Employee Services and Benefits	(310,399)
Payments to Suppliers and for Claims	<u>(316,891)</u>
Net Cash Provided by Operating Activities	<u>7,189,668</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Services Provided to Others	<u>(6,684)</u>
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CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Payments for Subscription Agreements	<u>(14,532)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Pooled Investment Income	5,023,491
Investment Costs	<u>(18,505)</u>
Net Cash Provided by Investing Activities	<u>5,004,986</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 12,173,438

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 89,853,119

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 102,026,557

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income	\$ 626,577
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
(Increase) Decrease in Assets:	
Loans Receivable	6,499,620
Loan Interest Receivable	23,665
Accounts Receivable	22,772
Net Pension Asset	323
Increase in Deferred Outflows of Resources	36,216
Increase (Decrease) in Liabilities:	
Accounts Payable	591
Wages Payable	(1,804)
Accrued Leave Liability	6,482
Decrease in Deferred Inflows of Resources	<u>(24,774)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 7,189,668

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, 2024

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 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 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 \$5,000 or more. Depreciation on capital assets is computed using the straight-line method over the estimated useful lives of the assets, which is 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, 2024.

E. LOANS RECEIVABLE

Loans receivable on June 30, 2024 is shown net of the allowance for doubtful loans of \$653,828.

South Dakota Revolving Economic Development and Initiative Fund
Notes to the Financial Statements
June 30, 2024

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-to-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 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.

South Dakota Revolving Economic Development and Initiative Fund

Notes to the Financial Statements

June 30, 2024

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, 2024.

H. SUBSCRIPTION-BASED 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 initially measured at the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain initial 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 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 non-current 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 asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension revenue, 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 asset are recognized on an accrual basis of accounting.

South Dakota Revolving Economic Development and Initiative Fund

Notes to the Financial Statements

June 30, 2024

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, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets.

Restricted - Consists of net position with constraints placed on their use by either creditors, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional or enabling legislation of the state.

Unrestricted - Consists of 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 and sick leave earned by staff.

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 2024 and its corresponding restricted net position at June 30, 2024:

	South Dakota Jobs Subfund
Beginning Net Position	\$ 1,638,900
Investment Income	<u>36,538</u>
Ending Net Position	<u>\$ 1,675,438</u>

South Dakota Revolving Economic Development and Initiative Fund

Notes to the Financial Statements

June 30, 2024

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. It 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 2024:

	Disaster Relief Subfund
Beginning Cash Balance	\$ 7,581,408
Investment Income	137,854
Repayment of Loans	<u>1,795,224</u>
Ending Cash Balance	<u>\$ 9,514,486</u>

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2024 is as follows:

	Balance at June 30, 2023	Additions	Deletions	Balance at June 30, 2024
Capital Assets Being Amortized:				
Intangible Subscription Asset	\$ 32,442	\$ -	\$ -	\$ 32,442
Less Accumulated Amortization for:				
Intangible Subscription Asset	<u>(14,897)</u>	<u>(14,897)</u>	<u>-</u>	<u>(29,794)</u>
Total Capital Assets, Net	<u>\$ 17,545</u>	<u>\$ (14,897)</u>	<u>\$ -</u>	<u>\$ 2,648</u>

NOTE 6 - COMMITMENTS

As of June 30, 2024, 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, 2024	\$ 38,740,298
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South Dakota Revolving Economic Development and Initiative Fund

Notes to the Financial Statements

June 30, 2024

NOTE 7 - LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2024 is as follows:

	Balance at June 30, 2023	Additions	Deletions	Balance at June 30, 2024	Due Within One Year
Accrued Leave Liability	\$ 17,404	\$ 20,562	\$ (14,080)	\$ 23,886	\$ 12,994
Subscriptions	14,152	-	(14,152)	-	-
	<u>\$ 31,556</u>	<u>\$ 20,562</u>	<u>\$ (28,232)</u>	<u>\$ 23,886</u>	<u>\$ 12,994</u>

Subscriptions relate to software used for the REDI Fund's loan platform. The subscription contract period is from September 5, 2019 through September 4, 2024 and requires payments upfront. Implementation costs of \$6,000 were included in the determination of assets and liabilities. 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. The final subscription payment was made during the year ended June 30, 2024.

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of retirement, voluntary resignation, or death will receive payment for one-fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of employee's annual compensation. The total leave liability of \$23,886 as of June 30, 2024 is shown as short and long-term liabilities on the Statement of Net Position.

NOTE 8 - RETIREMENT

The GOED participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. 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 different classes of employees, 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.

South Dakota Revolving Economic Development and Initiative Fund

Notes to the Financial Statements

June 30, 2024

NOTE 8 - RETIREMENT (CONTINUED)

Members who were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation 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 years of service is equal to 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 retirement benefits 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 retirement benefits 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 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%.
- 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 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.

South Dakota Revolving Economic Development and Initiative Fund

Notes to the Financial Statements

June 30, 2024

NOTE 8 - RETIREMENT (CONTINUED)

The GOED's contributions to the SDRS for the fiscal years ended June 30, 2024, 2023, and 2022 were \$11,839, \$12,458, and \$15,904, respectively, equal to the required contributions each year.

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

As of the measurement date of June 30, 2023, SDRS is 100.1% funded and, accordingly, had a net pension asset. As of June 30, 2024, the GOED reported an asset of \$726 for the REDI Fund's proportionate share of the net pension asset. As of June 30, 2024, 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	\$ 20,574	\$ -
Changes of Assumption	24,815	36,274
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investment	4,832	-
Changes in Proportional Share	5	74
Pension Contributions After Measurement Date	11,839	-
	<u>\$ 62,065</u>	<u>\$ 36,348</u>

\$11,839 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 in the upcoming year. Other amounts in the table above will be recognized in pension expense (revenue) in future years.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2023 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	1.91%

South Dakota Revolving Economic Development and Initiative Fund

Notes to the Financial Statements

June 30, 2024

NOTE 8 - RETIREMENT (CONTINUED)

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% or 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, 2023 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2022.

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, 2023 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
Global Equity	56.3%	3.8%
Investment Grade Debt	22.8%	1.7%
High Yield Debt	7.0%	2.7%
Real Estate	12.0%	3.5%
Cash	1.9%	0.8%
	<u>100.0%</u>	

South Dakota Revolving Economic Development and Initiative Fund
Notes to the Financial Statements
June 30, 2024

NOTE 8 - RETIREMENT (CONTINUED)

Pension Plan Fiduciary Net Position

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

NOTE 9 - 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.

NOTE 10 - SUBSEQUENT EVENTS

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