

**UNEMPLOYMENT INSURANCE FUND OF THE
SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION**
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2025

**SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION
UNEMPLOYMENT INSURANCE FUND**

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Independent Auditor's Report

To the Honorable Larry Rhoden
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation
Pierre, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Unemployment Insurance Fund of the South Dakota Department of Labor and Regulation (the Fund), an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2025, 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 Fund as of June 30, 2025, and the changes in its financial position and cash flows thereof 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 (*Government Auditing Standards*). 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 State of South Dakota, 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 Note 1, the financial statements of the Unemployment Insurance Fund of the South Dakota Department of Labor and Regulation are intended to present the financial position, the changes in financial position and cash flows of only that portion of the South Dakota Department of Labor and Regulation and the State of South Dakota that is attributable to the transactions of the Unemployment Insurance Fund of the South Dakota Department of Labor and Regulation. They do not purport to, and do not, present fairly the financial position of the South Dakota Department of Labor and Regulation or the State of South Dakota as of June 30, 2025, and the changes in their financial position or, where applicable, their cash flows for the year then ended in conformity 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities 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 Fund'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.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2025, on our consideration of the Fund of the State of South Dakota'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 Fund of the State of South Dakota'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 Fund of the State of South Dakota's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eric Sully LLP". The signature is written in dark ink and is positioned above the typed name and date.

Aberdeen, South Dakota
September 22, 2025

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNEMPLOYMENT INSURANCE FUND

JUNE 30, 2025

The following is a discussion and analysis of South Dakota's Unemployment Insurance Trust Fund's financial performance and position for the fiscal year ending June 30, 2025.

The South Dakota Reemployment Assistance (RA) division experienced an increase in activity in the fiscal year spanning July 1, 2024, through June 30, 2025. During this time, the number of weekly benefit payments increased from 66,157 in FY2024 to 77,295 in FY2025. Also, the average number of weekly payments increased from 14.0 in FY2024 to 14.9 in FY2025. The average weekly payment also increased from \$447 in FY2024 to \$466 in FY2025. As a result, the benefits paid increased from \$31,834,111 in FY2024 to \$35,263,877 in FY2025.

House Bill 1011 passed during the 2023 Legislative Session established a lower tax table for employer contributions to the Unemployment Insurance Trust Fund. Fiscal year 2025 is the first full year at these new rates. The taxes paid by employers into the Trust Fund decreased from \$25,926,130 in FY2024 to \$22,934,941 in FY2025, mostly attributed to the lower tax rates.

With the increased benefit payments and reduced tax revenue, the Unemployment Insurance Trust Fund decreased its net position from \$220.6 million as of June 30, 2024, to \$216.2 million on June 30, 2025. The \$4.4 million decrease in net position was due to pooled investment income of \$6.69 million being exceeded by the operating loss of \$11.1 million.

Contributing to the change in net position, the Trust Fund's operating income (operating revenues less operating expenses) decreased by \$3.0 million. This is predominantly a result of a 10.8% increase in benefit payments and 11.5% decrease in employer contributions.

Nonoperating revenues increased by \$.9 million from fiscal year 2024, mostly due to investment earnings having increased by \$1 million from the prior fiscal year.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

**STATEMENT OF NET POSITION
UNEMPLOYMENT INSURANCE FUND
JUNE 30, 2025**

Assets

Current Assets

Cash and Cash Equivalents (Note 2)	\$ 207,548,922
Receivables, Net of Allowance for Doubtful Accounts of \$3,544,415	6,513,377
Receivable from Other Governments	169,472
Receivable from Other State Funds (Note 3)	60,986
Receivable from Administrative Fund (Note 3)	60,503
Total Current Assets	214,353,260

Non-Current Assets

Receivables, Net of Allowance for Doubtful Accounts of \$14,119,522	2,240,016
Total Non-Current Assets	2,240,016

Total Assets	\$ 216,593,276
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Liabilities and Net Position

Current Liabilities

Due to Other Governments	\$ 56,427
Benefits Payable to Claimants	150,231
Unearned Funds for Reimbursing Employers	115,214
Payable to Futures Fund (Note 3)	27,196
Payable to Employment Security Contingency Fund (Note 3)	71,113
Total Current Liabilities	420,181

Commitments and Contingencies (Note 4)

Net Position

Restricted	216,173,095
Total Liabilities and Net Position	\$ 216,593,276

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2025**

Operating Revenues	
Employer Contributions	\$ 22,934,941
Federal Assistance Payments	1,238,000
Total Operating Revenues	24,172,941
Operating Expenses	
Unemployment Insurance Benefits	35,263,877
Total Operating Expenses	35,263,877
Operating Loss	(11,090,936)
Non-Operating Revenue	
Pooled Investment Income	6,686,387
Interest and Penalties on Contributions and Overpayments	910,080
Total Non-Operating Revenue	7,596,467
Income Before Transfers	(3,494,469)
Transfers	
Transfers To Other State Funds (Note 3)	(908,188)
Net Transfers	(908,188)
Change in Net Position	(4,402,657)
Total Net Position -- June 30, 2024	220,575,752
Total Net Position -- June 30, 2025	\$ 216,173,095

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

**STATEMENT OF CASH FLOWS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2025**

Cash Flows from (used for) Operating Activities

Receipts from Employers	\$ 22,865,708
Receipts from Other Governments	1,157,467
Payments for Benefits	(35,471,120)
Net Cash Flows used for Operating Activities	(11,447,945)

Cash Flows used for Non-Capital Financing Activities

Investment and Administrative Fees Transferred to Other State Funds in Excess of Collections	(37,845)
Transfer to Other State Funds	(921,871)
Net Cash Flows used for Non-Capital Financing Activities	(959,716)

Cash Flows from Investing Activities

Cash Received for Pooled Investment Income	6,686,387
Cash Received from Interest and Penalties on Contributions and Overpayments	910,080
Net Cash Flows from Investing Activities	7,596,467

Net Decrease in Cash During the Year **(4,811,194)**

Cash – Beginning of Year 212,360,116

Cash – End of Year **\$ 207,548,922**

Reconciliation of Operating Loss to Net Cash Flows used for Operating Activities:

Operating Loss	\$ (11,090,936)
Change in Assets and Liabilities:	
Receivables Net of Doubtful Accounts	(81,607)
Receivables from/Amounts Due to Other Governments	(80,533)
Receivables from Other State Funds	12,374
Benefits Payable to Claimants	(207,243)
Net Cash Flows used for Operating Activities	\$ (11,447,945)

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

NOTES TO THE FINANCIAL STATEMENTS UNEMPLOYMENT INSURANCE FUND JUNE 30, 2025

1) Summary of Significant Accounting Policies

a. Reporting Entity

The South Dakota Department of Labor and Regulation (the Department) is the state agency responsible for providing job placement services, job training services, unemployment insurance services, and the enforcement of state labor laws. The Unemployment Insurance Fund (the Fund) is used to account for tax receipts from employers within the State of South Dakota and Federal Unemployment Programs and to account for benefits paid to unemployed persons. The accompanying financial statements present only the financial condition and results of operations of the Fund and do not represent a complete presentation of the State of South Dakota or the Department's net position and activities.

b. Fund Accounting

The accounts of the Fund are organized for accounting and reporting purposes on the basis of fund accounting. The operations of the Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses.

Enterprise funds are used to report a governmental activity funded by a charge to external users of services. The Fund is an enterprise fund of the State of South Dakota established to account for funds that are expended for benefits paid to unemployed South Dakota workers. Fund revenues are collected from South Dakota employers based upon a percentage of qualifying wages paid and from direct federal funding. Cash balances of the Fund are to be deposited with the U.S. Department of Treasury as required by SDCL 61-4-5.

c. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Significant estimates not disclosed elsewhere in the accompanying financial statements include:

An allowance for uncollectible receivables is maintained at a level which management believes is adequate to absorb probable uncollectible accounts. Management determines the adequacy of the allowance based on historical data, current economic conditions, and other pertinent factors for the Fund.

It is reasonably possible that this estimate will change significantly in the near term.

d. Measurement Focus and Basis of Accounting

The financial statements of the Fund have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting.

Proprietary funds are presented using the economic resources measurement focus, applied on the accrual basis of accounting. Revenues from unemployment taxes from employers are recognized in the period to which the taxes relate and are earned. Revenues from Federal Unemployment Programs are recognized when applicable benefit payments are made under such programs. Expenditures are generally recognized when the related fund liability is incurred. Unearned funds for reimbursing employers represent advanced funds held by the Fund from the federal government as part of a pandemic program for the benefit of qualifying reimbursing employers that have not yet been earned.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) UNEMPLOYMENT INSURANCE FUND JUNE 30, 2025

(1) Summary of Significant Accounting Policies (Continued)

e. Receivables and Payables

Receivables represent payments due from employers, the federal government, and claimants for benefit overpayments. The Fund expects all receivables to be collected within one year, except for certain claimant benefit overpayments, of which a noncurrent portion has been estimated using prior historical collection rates. Appropriate allowances for estimated uncollectible amounts have been established.

Benefits payables represent benefits payable to the claimants either certified as of June 30, 2025, or initially filed as of June 30, 2025, and subsequently approved and paid, which are considered payable to claimants at year-end.

f. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Fund Net Position, revenue 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, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

g. Equity Classifications and Application of Net Position

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

1. Net investment in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – consists of net position with constraint placed on their use either by (a) external groups such as creditors, grantors, contributors, or law and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the Fund's policy to first use any restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position is available. At June 30, 2025, all fund net position is considered restricted.

(2) Cash and Cash Equivalents

Cash and cash equivalents include all deposits and investments with an original maturity of three months or less for the purposes of the statement of cash flows. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Department's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. 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 that exceed deposit insurance such as the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA). In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of the bank's public debt rating, which may not be less than “AA” or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

UNEMPLOYMENT INSURANCE FUND

JUNE 30, 2025

(2) Cash and Cash Equivalents (Continued)

Investments – In general, SDCL 4-5-6 permits funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivisions or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2025, the Fund's cash consisted only of checking and pooled U.S. Treasury Unemployment Insurance Funds. U.S. Treasury Unemployment Insurance Funds are amounts on deposit with the Unemployment Trust Fund established by the Social Security Act with the applicable state agency of the Fund as the beneficiary of those funds on deposit. The checking accounts are insured or collateralized in the Fund's name. The Fund has no investment policies to restrict its investments beyond the state requirements noted above.

Custodial Credit Risk – The risk that, in the event of a depository failure, the Fund's deposits may not be returned to it. The Fund does not have a deposit policy for custodial credit risk. As of June 30, 2025, none of the Fund's deposits were exposed to custodial credit risk.

(3) Activity with Other State Funds (Related Party)

The Receivable from Other State Funds relates to unemployment insurance benefits paid to employees of other state agencies. The Payable to Futures Fund and the Payable to Employment Security Contingency Fund represent interest and fees collected from employers that are required to be remitted to other state funds. The Receivable from Administrative Fund represents fees remitted to other state funds in excess of actual amounts collected as of the statement of net position date.

The Transfers to Other State Funds account for the interest and fees collected from employers and remitted to other state funds.

(4) Commitments and Contingencies

Benefit payments to unemployed persons (claimants) are recorded when claimants certify their eligibility for benefits. Claimants may receive benefit payments for up to the lesser of twenty-six payments at their maximum weekly amounts (may be extended as part of federal programs) or as long as they continue to be eligible to receive payments. Eligibility to continue to receive benefit payments is determined on a weekly basis. Accordingly, no liability has been recorded for future benefit payments of approved claims as of June 30, 2025, through the end of the maximum benefit eligibility term, other than for amounts certified by the claimants as of June 30, 2025, that have not been paid. The maximum remaining amount of benefits payable to claimants at June 30, 2025, is not determinable; however, the amount would be significant to the Fund's financial statements.

Amounts received or receivable from federal agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time, although the Fund expects such amounts, if any, to be immaterial.



**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***

To the Honorable Larry Rhoden
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation
Pierre, South Dakota

We have audited, in accordance with 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 (*Government Auditing Standards*), the financial statements of the Unemployment Insurance Fund of the South Dakota Department of Labor and Regulation (the Fund), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated September 22, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund'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 result 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.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
September 22, 2025