



Financial Statements  
Governmental Programs Department  
September 30, 2016

# Sisseton-Wahpeton Oyate of the Lake Traverse Reservation

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## Independent Auditor's Report

The Honorable Tribal Council  
Sisseton-Wahpeton Oyate  
Agency Village, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Governmental Programs Department (the "Department") of the Sisseton-Wahpeton Oyate (the "Tribe") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Tribe that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the Sisseton-Wahpeton Oyate as of September 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis and budgetary comparison schedules that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated June 28, 2017 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Fargo, North Dakota  
June 28, 2017

Sisseton-Wahpeton Oyate  
 Governmental Programs Department  
 Statement of Net Position  
 September 30, 2016

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	Governmental Activities
Assets	
Cash and investments	\$ 34,183,600
Receivables, net	1,419,614
Grants receivable	5,133,767
Internal balances	437,202
Inventories	34,262
Prepaid items	47,383
Other assets	129,807
Capital assets	
Not being depreciated	55,231,185
Being depreciated, net of accumulated depreciation	54,354,003
<u>Total assets</u>	<u>150,970,823</u>
Liabilities	
Checks written in excess of bank balance	3,477,125
Accounts payable	4,058,568
Accrued liabilities	100,809
Unearned revenue	13,301,698
Noncurrent liabilities	
Due within one year	2,009,913
Due in more than one year	29,146,762
<u>Total liabilities</u>	<u>52,094,875</u>
Net Position	
Invested in capital assets, net of related debt	78,970,077
Restricted for specific purposes	966,991
Unrestricted	18,938,880
<u>Total net position</u>	<u>\$ 98,875,948</u>

Sisseton-Wahpeton Oyate  
Governmental Programs Department  
Statement of Activities  
Year Ended September 30, 2016

Functions/Programs	Primary Government				Net (Expense) Revenue and Changes in Net Position
	Expenses	Program Revenues		Capital Grants and Contributions	
		Charges for Services	Operating Grants and Contributions		
Primary Government					
Governmental activities					
General government	\$ 37,976,115	\$ 4,488,328	\$ 8,063,063	\$ -	\$ (25,424,724)
Public works	450,803	20	569,486	-	118,703
Health services	5,658,518	8,885	4,399,432	1,374,917	124,716
Education	2,309,285	-	1,927,924	-	(381,361)
Public safety	2,493,462	18,535	3,389,550	-	914,623
Community services	4,324,755	153,748	5,429,573	-	1,258,566
Economic development	3,347,742	2,349,850	3,552,833	-	2,554,941
Culture and recreation	2,120,816	117,688	513,429	-	(1,489,699)
Environmental management	877,722	-	593,845	-	(283,877)
Interest on long-term debt	1,200,128	-	-	-	(1,200,128)
Total governmental activities	<u>60,759,346</u>	<u>7,137,054</u>	<u>28,439,135</u>	<u>1,374,917</u>	<u>(23,808,240)</u>
General revenues and transfers:					
Unrestricted investment income					47,521
Other					3,711,010
Casino distributions					<u>26,000,000</u>
Total general revenue and transfers					<u>29,758,531</u>
Change in net position					5,950,291
Net position - beginning of year					<u>92,925,657</u>
Net position - end of year					<u>\$ 98,875,948</u>

Sisseton-Wahpeton Oyate  
Governmental Programs Department  
Balance Sheet – Governmental Funds  
September 30, 2016

	General Fund	Department of Interior Fund	Department of Transportation Fund	Department of Health and Human Services Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments	\$ 19,027,369	\$ 3,449,756	\$ 4,377,253	\$ 6,552,181	\$ 777,041	\$ 34,183,600
Receivables, net	811,682	15,735	-	412,407	179,790	1,419,614
Grants receivable	2,229,395	87,558	26,279	692,188	2,098,347	5,133,767
Due from other funds	12,770,417	41,513	1,521,267	362,582	415,843	15,111,622
Interfund advances	437,202	-	-	-	-	437,202
Inventories	34,262	-	-	-	-	34,262
Prepaid items	-	47,383	-	-	-	47,383
Other assets	88,815	9,083	116	11,658	20,135	129,807
Total assets	<u>\$ 35,399,142</u>	<u>\$ 3,651,028</u>	<u>\$ 5,924,915</u>	<u>\$ 8,031,016</u>	<u>\$ 3,491,156</u>	<u>\$ 56,497,257</u>
<b>Liabilities and Fund Balance</b>						
<b>Liabilities</b>						
Checks written in excess of bank balance	\$ 605,494	\$ 101,575	\$ 1,125,219	\$ 1,000,826	\$ 644,011	\$ 3,477,125
Accounts payable	1,266,226	246,476	599,496	375,596	1,570,774	4,058,568
Accrued liabilities	11,470	-	-	-	-	11,470
Due to other funds	13,011,252	92,765	1,514,176	274,109	219,320	15,111,622
Unearned revenue	387,081	3,182,476	2,686,024	6,375,302	670,815	13,301,698
Total liabilities	<u>15,281,523</u>	<u>3,623,292</u>	<u>5,924,915</u>	<u>8,025,833</u>	<u>3,104,920</u>	<u>35,960,483</u>
<b>Fund Balance</b>						
<b>Nonspendable</b>						
Interfund advances	437,202	-	-	-	-	437,202
Inventories	34,262	-	-	-	-	34,262
Prepaid items	-	47,383	-	-	-	47,383
<b>Restricted</b>						
Grants	-	-	-	5,183	386,236	391,419
Debt	575,572	-	-	-	-	575,572
Unassigned	19,070,583	(19,647)	-	-	-	19,050,936
Total fund balance	<u>20,117,619</u>	<u>27,736</u>	<u>-</u>	<u>5,183</u>	<u>386,236</u>	<u>20,536,774</u>
Total liabilities and fund balance	<u>\$ 35,399,142</u>	<u>\$ 3,651,028</u>	<u>\$ 5,924,915</u>	<u>\$ 8,031,016</u>	<u>\$ 3,491,156</u>	<u>\$ 56,497,257</u>

The Notes to Financial Statements are an integral part of this statement.

**Sisseton-Wahpeton Oyate**  
 Governmental Programs Department  
 Reconciliation of the Balance Sheet to the Statement of Net Position  
 September 30, 2016

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Total Fund Balances - Governmental Funds		\$ 20,536,774
Amounts Reported for Governmental Activities in the Statement of Net Position Are Different Because		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		109,585,188
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:		
Notes payable	\$ (3,587,955)	
G.O. bond	(26,979,988)	
Capital lease payable	(47,168)	
Compensated absences	(541,564)	
Accrued interest	(89,339)	
	(31,246,014)	
Total Net Position - Governmental Activities		\$ 98,875,948

Sisseton-Wahpeton Oyate  
Governmental Programs Department  
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds  
Year Ended September 30, 2016

	General Fund	Department of Interior Fund	Department of Transportation Fund	Department of Health and Human Services Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Intergovernmental	\$ 2,639,046	\$ 5,092,524	\$ 3,455,005	\$ 8,966,866	\$ 4,109,999	\$ 24,263,440
Program income	2,038,499	88,691	-	2,738	-	2,129,928
Indirect cost revenue	4,825,836	-	-	-	-	4,825,836
Rental income	5,267,233	-	-	-	-	5,267,233
Taxes	3,873,087	-	-	-	-	3,873,087
Tribal match	293,827	-	-	194,671	17,730	506,228
In-kind revenue	-	-	-	90,890	-	90,890
Other income	821,012	1,525	-	-	-	822,537
Total revenues	<u>19,758,540</u>	<u>5,182,740</u>	<u>3,455,005</u>	<u>9,255,165</u>	<u>4,127,729</u>	<u>41,779,179</u>
<b>Expenditures</b>						
Salaries and wages	10,199,774	2,106,252	73,069	3,848,207	1,273,187	17,500,489
Fringe benefits	2,249,283	375,861	18,269	776,951	238,364	3,658,728
Travel and training	706,586	86,709	16,446	197,086	80,107	1,086,934
Utilities and supplies	1,640,138	130,373	14,380	423,626	92,323	2,300,840
Contract services	4,727,204	561,426	758,860	1,350,517	225,694	7,623,701
Program services	2,642,823	925,052	-	45,366	33,421	3,646,662
In-kind	-	-	-	90,890	-	90,890
Indirect cost	3,060,398	484,963	24,048	932,924	303,501	4,805,834
Rental	2,552,842	36,993	-	173,665	168,835	2,932,335
Maintenance and repair	1,303,561	206,437	2,928	124,331	5,499	1,642,756
Other	9,758,141	98,682	17,314	488,208	69,651	10,431,996
Debt service						
Principal	664,982	-	766,751	-	-	1,431,733
Interest	1,031,116	-	201,702	800,422	12,392	2,045,632
Capital outlay	3,138,206	142,256	1,561,238	-	1,613,591	6,455,291
Total expenditures	<u>43,675,054</u>	<u>5,155,004</u>	<u>3,455,005</u>	<u>9,252,193</u>	<u>4,116,565</u>	<u>65,653,821</u>
Deficiency of Revenues Under Expenditures	(23,916,514)	27,736	-	2,972	11,164	(23,874,642)
<b>Other Financing Sources</b>						
Casino distributions	26,000,000	-	-	-	(149,272)	25,850,728
Transfers (to) from other funds	159,084	-	-	(159,084)	-	-
Total other financing sources	<u>26,159,084</u>	<u>-</u>	<u>-</u>	<u>(159,084)</u>	<u>(149,272)</u>	<u>25,850,728</u>
Net Change in Fund Balance	2,242,570	27,736	-	(156,112)	(138,108)	1,976,086
Fund Balance, Beginning of Year	17,875,049	-	-	161,295	524,344	18,560,688
Fund Balance, End of Year	<u>\$ 20,117,619</u>	<u>\$ 27,736</u>	<u>\$ -</u>	<u>\$ 5,183</u>	<u>\$ 386,236</u>	<u>\$ 20,536,774</u>

The Notes to Financial Statements are an integral part of this statement.

Sisseton-Wahpeton Oyate  
Governmental Programs Department  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances to the Statement of Activities  
Year Ended September 30, 2016

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Net Change in Fund Balances - Total Governmental Funds		\$ 1,976,086
Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are		
Capital outlay		5,448,666
Depreciation expense		(2,937,419)
The net effect of the disposal of capital assets is to increase net position		(41,035)
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.		
Current period balance	\$ (541,564)	
Prior period balance	596,202	
Current year effect		54,638
Interest payable is reported in the government-wide statement of net position but is not recorded in the governmental funds.		
Current period balance	(89,339)	
Prior period balance	106,961	
Current year effect		17,622
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. In the current period these amounts are:		
Long-term debt principal retirement		1,431,733
Change in Net Position of Governmental Activities		\$ 5,950,291

## **Note 1 - Summary of Significant Accounting Policies**

### **Organization**

The Sisseton-Wahpeton Oyate (the "Tribe") is a federally recognized Indian tribe whose constitution was formally adopted by its members on August 1-2, 1966 and approved by the U.S. Secretary of the Interior on August 25, 1966 pursuant to the Indian Reorganization Act of 1934.

The Tribe provides general government, public health and welfare, public safety, education, public works, culture and recreation, economic development and social and health services for the benefit of the members.

### **Reporting Entity**

In evaluating how to define the Governmental Programs Department (the "Department") for financial reporting purposes, management evaluated the involved entities based on a number of criteria. It was determined that the Tribe is the primary government based upon the fact that it is legally separate, its governing body is separately selected, and it is fiscally independent of other primary governments. The Department is an organizational unit of the Tribe.

These financial statements present only the government-wide activities and governmental fund financial statements (general and special revenue) of the Department. The accompanying financial statements do not include any other funds of the Tribe. As a result, these financial statements do not purport to present fairly the financial position and results of operations of the Sisseton-Wahpeton Oyate as a whole in accordance with accounting principles generally accepted in the United States of America.

The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute generally accepted accounting principles (GAAP) for governments, including Indian Tribes.

### **Basis of Presentation**

#### **Basic Financial Statements**

The financial statements of the Department include the Department-wide and the fund financial statements. The focus is on the Department as a whole in the Department-wide financial statements, while reporting additional and detailed information about the Department's major governmental activities in the fund financial statements.

#### **Department – Wide Financial Statements**

The Department -wide statement of net position and statement of activities display information about the Department. The statements include the financial activities of the overall Department. Eliminations have been made to minimize the double counting of internal activities.

Government activities are financed primarily through transfers from business-type activities, investment income, intergovernmental revenues, taxes, and Tribal Employment Rights Ordinance (TERO) fees.

The Department -wide statement of activities reflects the cost of programs and functions (community services, public works, gaming, etc.) reduced by directly associated revenues (program income, and operating and capital grants) to arrive at the net revenue or expenses for each program and function. Net program revenue or expenses for governmental activities are then adjusted for general revenues to determine the change in net position for the year. Indirect expenses such as support services and administration incurred in the general government and other functions/activities are not allocated to programs/functions that they may benefit. When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Fund Financial Statements**

The fund financial statements provide information about the Department's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

### **Major Governmental Funds**

*General Fund* – The general fund is the Department's primary operating fund. It accounts for all governmental financial resources, except those required to be accounted for in another fund.

*Department of Interior Fund* – This fund accounts for the resources received by the Department to provide general assistance to the Tribal Government.

*Department of Transportation Fund* – This fund accounts for the resources received by the Department to perform transportation projects across the Tribe.

*Department of Health and Human Services Fund* – This fund accounts for the resources received by the Department to provide medical services to its enrolled members.

### **Basis of Accounting**

Governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method revenue is recognized when measurable and available. The Department considers all revenue reported in the governmental funds to be available if the revenue is collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

### **Other Significant Accounting Policies**

#### **Cash and Investments**

Cash includes cash on hand, demand deposits, and cash in bank accounts, as well as short-term, highly liquid investments with original maturities of less than 90 days.

Investments are recorded at fair market value in accordance with Statement 31 of the Governmental Accounting Standards Board. The Tribe's investment policy allows investments in obligations of the U.S. government, corporate and government bonds, and mutual funds that invest in government or corporate bonds.

### **Accounts Receivable**

Accounts receivable includes normal business receivables, as well as loans to Tribal members. The allowance for doubtful accounts in the general fund adjusts for those accounts the Tribe deems uncollectible.

### **Grants Receivable**

Grants receivable consists of amounts due for reimbursement of approved expenditures on grants entered into with various government agencies. Receivables of this nature are considered fully collectible.

### **Interfund Transactions**

During the course of operations, transactions occurred between individual funds for good provider and services rendered. These receivables and payables are properly classified as “due from other funds” or “due to other funds” in the fund financial statements, and are eliminated in the department-wide statement of net position. Repayment terms for interfund balances have not been established. Quasi-external transactions are account for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed. All other interfund transactions are reported as transfers.

### **Inventories**

Inventories are stated at lower of cost or market value. Cost is determined by the first-in, first-out method. Inventories of finished goods include allocations for direct labor and overhead costs.

### **Prepaid Items**

Certain cash payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

### **Capital Assets**

Capital assets are recorded at historical costs. Contributed assets, including those from federal government, are recorded at estimated fair value on the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred. Reservation lands and related recourses (such as timber stands and other natural sources) are not capitalized because there is not an historical costs associated with these assets.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for governmental activities are \$5,000, and estimated useful lives of capital assets for these activities is as follows:

Buildings and improvements	10-50 years
Equipment	2-30 years
Vehicles	3-10 years
Infrastructure	25 years

Depreciation is provided using the straight-line method over estimated useful lives.

The Department determined, or estimated, historical infrastructure costs by reference to historical records, by appraisal, or by determining:

- Estimated costs appropriate for the construction or acquisition date if actual historical costs were not available, or
- Current cost adjusted for the price change from the date of construction or acquisition to the current date.

### **Impairment**

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. When required, impairment losses on long-lived assets to be held and used would be recognized based on excess of the assets' carrying amount over the best estimate of expected undiscounted future cash flows. Long lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

### **Unearned Revenue**

The Department recognizes unearned revenue to the extent cash receipts from a grant or contract exceed program expenditures.

### **Compensated Absences**

The Department has a personal and medical leave policy for eligible employees. The Department restricts carryover or personal leave to the next fiscal year to 240 hours and pays unused personal leave at separation. The Department does not restrict the carryover of medical leave, but does not pay unused medical leave at separation.

### **In-Kind Items**

Donated services and other costs provided by the Department to meet grantor matching requirements are recorded as both revenue and expenditures in the accompanying financial statements. The services and costs are value at rates and amounts consistent with those paid for other similar work or activities of the Department.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure or contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Federal and State Income Taxes**

The Tribe, as a federal recognized sovereign government, is exempt from federal and state income taxes. The Department, as an organizational unit of the Sisseton-Wahpeton Oyate, is also exempt from federal and state income taxes. As such, no income taxes have been provided for in the accompanying financial statements.

### **Indirect Costs**

Indirect costs represent recoverable overhead costs charged by the Department to federal, state, and tribal programs in connection with administering and accounting for programs funded by federal, state and tribal resources. The latest indirect cost rate approved by the cognizant federal agency (Department of Interior, Office of Inspector General) was 26.62% for all programs. Certain programs were limited to lesser amounts as prescribed in the grant/contract award and a number of programs were not funded for the full amount of indirect costs based on the approved rate. These overhead costs have been reflected in the accompanying combined financial statements as expenditures of the governmental funds and as revenue to reimburse the expenditures of the indirect cost fund.

### **Investments**

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Tribe does not have a formal policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

## **Fund Balance**

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

## **Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction, or improvements of those assets and adding back any unspent proceeds.

## **Note 2 - Cash and Cash Equivalents and Investments**

### **Cash**

#### **Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. The Tribe does not have a deposit policy for custodial credit risk. At September 30, 2016, the Department had adequate collateral on its deposits.

#### **Credit Risk**

The Department has no investment policy which limits its investment choices with regard to credit rating.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The Department places no limits on the amount which may be invested with a single issuer. There are no investments in any one issuer that is in excess of 5% of total investments at year-end.

At September 30, 2016, the Department's cash and cash equivalents and investments consisted of the following:

Cash and cash equivalents		
Demand deposits		\$ 18,096,018
Money market		10,727,819
Cash on hand		7,126
Investments		
U.S. Treasury Overnighter		1,875,512
Total cash and investments		\$ 30,706,475

The cash and investments on the statement of net position are classified as follows:

Cash and investments		\$ 34,183,600
Checks written in excess of bank balance		(3,477,125)
		\$ 30,706,475

At September 30, 2016, the Department had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years) < 1
U.S. Treasury Overnighter	\$ 1,875,512	\$ 1,875,512

At September 30, 2016, all of the above investments were not rated.

**Note 3 - Receivables**

The Department's receivables as of September 30, 2016 are as follows:

Accounts	\$ 424,878
Loans to Tribal members	1,363,045
Contractor revolving loans	140,616
Grants	5,133,767
Gross receivables	7,062,306
Less allowance for uncollectible accounts	(508,925)
	\$ 6,553,381

The receivables on the statement of net position are classified as follows:

Receivables, net	\$ 1,419,614
Grants receivable	5,133,767
	\$ 6,553,381

**Note 4 - Capital Assets**

Capital asset activity for the year ended September 30, 2016, is summarized as follows:

	Balance 10/1/15	Additions	Deletions	Balance 9/30/16
Capital assets not being depreciated				
Land	\$ 50,973,770	\$ 2,087,486	\$ (5,200)	\$ 53,056,056
Construction in progress	108,808	2,111,321	(45,000)	2,175,129
Total capital assets not being depreciated	51,082,578	4,198,807	(50,200)	55,231,185
Capital assets, being depreciated				
Buildings and improvements	56,318,936	430,566	-	56,749,502
Equipment	8,258,942	399,965	(73,214)	8,585,693
Vehicles	3,395,438	439,128	-	3,834,566
Infrastructure	10,170,458	30,400	-	10,200,858
Total capital assets being depreciated	78,143,774	1,300,059	(73,214)	79,370,619
Less accumulated depreciation for				
Buildings and improvements	(11,086,896)	(1,424,960)	558	(12,511,298)
Equipment	(4,628,526)	(838,813)	24,840	(5,442,499)
Vehicles	(2,512,507)	(304,977)	6,781	(2,810,703)
Infrastructure	(3,883,447)	(368,669)	-	(4,252,116)
Total accumulated depreciation	(22,111,376)	(2,937,419)	32,179	(25,016,616)
Total capital assets being depreciated, net	56,032,398	(1,637,360)	(41,035)	54,354,003
Net capital assets	\$ 107,114,976	\$ 2,561,447	\$ (91,235)	\$ 109,585,188

Depreciation expense was charged to the following functions:

Governmental activities	
General government	\$ 2,431,873
Public works	82,975
Health services	84,226
Education	86,292
Public safety	39,789
Community services	8,176
Economic development	143,106
Culture and recreation	60,982
	<u>60,982</u>
Total depreciation expense - governmental activities	<u><u>\$ 2,937,419</u></u>

### Note 5 - Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2016, were as follows:

	Balance 10/1/2015	Additions	Reductions	Balance 9/30/2016	Due Within One Year
Notes payable	\$ 4,430,413	\$ -	\$ (842,458)	\$ 3,587,955	\$ 855,777
G.O. bonds	27,524,718	-	(544,730)	26,979,988	565,404
Capital lease payable	91,713	-	(44,545)	47,168	47,168
Compensated absences	596,202	870,042	(924,680)	541,564	541,564
	<u>\$ 32,643,046</u>	<u>\$ 870,042</u>	<u>\$ (2,356,413)</u>	<u>\$ 31,156,675</u>	<u>\$ 2,009,913</u>

Notes, bonds, and capital lease payable consisted of the following:

Notes Payable	
5.0% note collateralized by assignment of income on land and deposit account, due in annual installments of \$985,574, including interest, to May 2020	\$ 3,491,425
5.0% note collateralized by equipment, due in annual installments of \$51,972, including interest, November 2017	<u>96,530</u>
Total notes payable	\$ 3,587,955
G.O. Bonds	
3.75%, \$31,200,000 Series 2010 Build America Bonds, due in monthly installments of \$130,104, including interest, to December 2044.	26,868,712
2.38%, \$122,000 Series 2011 Bonds, due in monthly installments of \$394, including interest, to May 2051	<u>111,276</u>
Total G.O bonds payable	26,979,988
7.89% capital lease of equipment, due in annual installments of \$50,689, including interest, to November 2016	47,168
Compensated Absences	<u>541,564</u>
Total long-term debt	<u><u>\$ 31,156,675</u></u>

All governmental debt will be liquidated out of the General Fund or BIA Fund.

At September 30, 2016, the value of the equipment under capital lease is \$639,735, net of accumulated depreciation of \$530,268.

Annual debt service requirements to maturity for all notes, bonds, capital leases payables, and compensated absences for the Department are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 2,009,913	\$ 1,186,185
2018	1,486,091	1,117,443
2019	1,502,077	1,049,485
2020	1,572,785	981,142
2021	647,621	909,367
2022-2026	3,678,004	4,151,936
2027-2031	4,434,223	3,395,717
2032-2036	5,346,003	2,483,937
2037-2041	6,445,356	1,384,584
2042-2046	4,014,952	214,081
2047-2051	19,649	1,056
	<u>31,156,675</u>	<u>16,874,934</u>
Total	<u>\$ 31,156,675</u>	<u>\$ 16,874,934</u>

**Note 6 - Related Party Transactions**

The Department receives monthly gaming profit distributions from Dakota Magic Casino and Hotel, Dakota Connection Casino, and Dakota Sioux Casino. The Department in turn distributes approximately 36% of the gaming profits to the districts. The distributions from the Casinos to the Department totaled \$26,000,000. The distributions to the districts from the Department totaled \$6,122,212 for the year ended September 30, 2016.

The facility in which Sisseton-Wahpeton College conducts its operations is located at the Old Agency and is owned by the Department. On April 5, 2007 the College entered into an agreement with the Department for use of the facility. The College is responsible for general liability insurance, routine maintenance, utilities, and telephone costs; no additional lease payments are required. The term of the agreement is twenty five years, ending April 5, 2032.

**Note 7 - Retirement Plan**

The Department has established a 401(k) Profit Sharing Pension Plan for the benefit of its employees. All employees are eligible who have been employed by the Department for 1/4th of one year. The Department matches employee contributions up to 5% of each participant's annual calendar year salary. Individual employees are vested 100% following the 90-day probationary period.

The Department's profit sharing expense for the fiscal years ended September 30, 2016, 2015 and 2014 were \$280,976, \$281,013, and \$307,799, respectively.

**Note 8 - Interfund Receivables, Payables, Advances, and Transfers**

Interfund balances are to accrue obligations between funds. Balances at September 30, 2016 are as follows:

	Due from other funds	Due to other funds
General Fund	\$ 12,770,417	\$ 13,118,199
State of South Dakota Fund	2,175	1,913
Department of Interior Fund	41,513	92,765
Department of Transportation Fund	1,521,267	1,514,176
Department of Education Fund	27,635	-
Department of Health and Human Services Fund	371,532	274,109
Department of Agriculture Fund	272,426	12,392
Environmental Protection Agency Fund	18,869	76,727
Department of Justice Fund	32,632	23,621
Department of Commerce Fund	231	6,670
Department of Homeland Security	61,875	-
	\$ 15,120,572	\$ 15,120,572

Interfund advances are amounts due to the Department from two related funds of the primary government. Dakota Western borrowed \$650,000 from the General Fund in November 2007 to cover short-term financing requirements. There is no interest rate for this loan and there is no formal repayment plan. In October 2007, the Department used its letter of credit to pay off a line of credit and two promissory notes held in the name of Sisseton-Wahpeton Fuel, Inc. The Department is receiving monthly payments of \$17,370 from Sisseton-Wahpeton Fuel, Inc. bearing interest at an annual rate of 6.75%. Not all monthly payments were made during 2016. As of September 30, 2016 Dakota Western and Sisseton-Wahpeton Fuel, Inc. owed the Department \$285,377 and \$151,825, respectively.

During the year ended September 30, 2016 \$205,104 was transferred from the General Fund to the Department of Health and Human Services Fund for a sanitation project.

**Note 9 - Risk Management**

The Tribe faces a considerable number of risks of loss including;

- Damage to and destruction and loss of property and contents;
- Environmental damage;
- Workers' compensation (i.e. employee injuries)
- Tort actions; and,
- Error and commissions

A variety of methods are used to provide insurance for these risks. Commercial insurance policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, tort actions, and errors and omissions. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Worker's compensation insurance coverage is provided through a third party carrier.

Given a lack of coverage available, the Tribe has no coverage for potential losses due to environmental damages.

The amounts of any potential future losses are unknown.

## **Note 10 - Contingent Liabilities and Commitments**

### **Commitments**

The Department has construction commitments totaling approximately \$6,379,000. The projects are anticipated to be completed in 2017.

### **Federal and State Grants and Contracts – Questioned Costs**

The Department participates in a number of federal and state grant/contract program that require the Department to expend their funds in accordance with requirements specified in grant/contract agreements. These programs have been and/or are subject to financial and compliance audits. Repayment of expenditures for disallowed purposes is the responsibility of the Department. Further, over expenditures of grant/contract funds generally must be repaid to the program from Department funds.

### **Major Revenue Source**

A substantial portion of the Department's revenue is from federal and state grants/contracts. In the event these sources of revenue were discontinued or significantly restricted, the activities of the Department would be curtailed accordingly.

## **Note 11 - Subsequent Events**

Subsequent to year-end, the Department obtained a note payable of \$3,500,000 from a bank to be used for the construction of a grocery store. The note bears interest at 5.0 percent per annum, and is due in one payment of all outstanding principal plus all accrued unpaid interest on July 21, 2017. The collateral on the note is essentially all unencumbered Department assets.