
SOUTH DAKOTA

EDFA FUND

ECONOMIC DEVELOPMENT FINANCE AUTHORITY

JUNE 30, 2018 • ANNUAL FINANCIAL REPORT

Economic Development Finance Authority Members

Terry Nelson, Chairman, is most recently retired as First Vice President of RBC Wealth Management in Rapid City. Mr. Nelson is a Certified Financial Planner (CFP) and Financial Consultant. He graduated from South Dakota State University with a Bachelor of Science in Psychology and Economics and later a Master of Science in Counseling and also named a Distinguished Alumni. Mr. Nelson was previously a Realtor in Rapid City. Presently Mr. Nelson serves on The South Dakota Alumni Advocacy Board and on the SDSU Foundation. He is a past President of South Dakota Associated School Boards and is involved in numerous other civic organizations. The last three years he has been President of the Business Improvement District (BID) board which helps develop and finance Main Street Square Plaza in downtown Rapid City. He presently is in real estate development in the Black Hills.

Gerrit Juffer, Vice-Chairman, is President of Juffer Inc., a financial service company with offices in Wagner, Parkston, Mitchell, Woonsocket, Huron, Tea, Irene and Sioux Falls, South Dakota, along with Blair, Thedford and Sargent, Nebraska. Mr. Juffer has 35 years of financial services experience, providing insurance, investment and real estate. Mr. Juffer is active in numerous social and civic organizations, as well as business ventures. Mr. Juffer attended the University of South Dakota, Midwest Bankers and the Graduate School of Banking.

Jeff Erickson is currently owner of E&E Management, LLC, Manager of Border Plains, LLC, Chairman of The Schwan Company, and is a partner and Vice Chairman of the Board of American Bank & Trust. He was previously President and Chief Executive Officer of Great Western Bank. He is currently the Chairman of the South Dakota Banking Commission, Chairman of the Governor's Office of Economic Development Board (REDI), and is Chairman of the South Dakota Community Foundation. He was the Chairman of Governor Dennis Daugaard's Transition Team (2010). He has also served as Vice Chairman of the South Dakota Ellsworth Development Authority, Chairman of Focus Watertown and the Watertown Development Company and also has served as the President of the Watertown Area Chamber of Commerce and as a Board Member of the Sioux Falls Development Foundation. A graduate of Northern State University in Aberdeen, South Dakota, in 2008 he was named "Distinguished Alumni". In addition, Jeff is a graduate of the Pacific Coast Banking School at the University of Washington in Seattle, Washington; and is a graduate of the University of Iowa Executive Development Program in Iowa City, Iowa. Mr. Erickson has worked in the financial services industry for 30+ years. He has been married to his wife, Linda, for 40 years and has four children and 11 grandchildren. In addition to enjoying time spent with his family, he enjoys sharing sporting events and pheasant hunting with friends and family. He and his family believe in giving back to the communities they live in by volunteering both time and money to worthwhile causes.

Don Kettering, is a South Dakota born, farm-raised, Brentford High School, Northern State College (BA) and South Dakota State University (MA) graduate. He trained in the United States Army and has worked in agricultural banking for the past 39 years. Mr. Kettering and his wife have two children and five grandchildren. He has lived and worked in the Yankton community for almost forty years. Mr. Kettering currently serves as a board member for the Economic Development Finance Authority and the Yankton County Commission and has been actively involved in economic development, infrastructure improvements, planning and zoning and the local Boys and Girls Club Board and Club activities. He enjoys hunting, fishing, golf, gardening, and woodworking as pastime activities. Working with community and State organizations that promote growth and opportunities for others has been very gratifying for him.

Tom Jones is the previous owner of Jones' Food Centers in Viborg, Lake Andes, Alcester, Springfield, Parker, Vermillion and Missouri Valley, IA. Mr. Jones graduated from Huron College in December 1962 with a degree in Bachelor of Arts and in May of 1969 from South Dakota State University with a Master's Degree in Education Administration. Mr. Jones also was previous owner of Sunny Side Plaza in Hartford, Southeastern Overhead Door, Ltd in Mitchell and Beresford and Dakota Ace Hardware in Viborg. Tom currently serves as a board member for the Economic Development Finance Authority and has previously served as a Viborg City Council Member, Chairman of the Viborg Economic Development Board, 4-H Turner County Horse Leader, Chairman of the South Dakota 4-H Horse Board, Active Money Raiser for Make-A-Wish, South Dakota Sports Hall of Fame Advisory

Board, South Dakota Hall of Fame Board Member, South Dakota Rodeo Association Board, United State Team Penning Association Board, National Cutting Horse Association, Masonic Member of Joppa Lodge, El Riad Shrine Member, South Dakota House of Representatives from 2011-2012 and the South Dakota Senate from 2012-13. He also has served as a head and assistant basketball coach at the college and high school level. Mr. Jones has also been named Business Man of the Year, is in the Huron College Hall of Fame, was an All American College Football player, and was Coach of the Year at the college and high school levels. He and his wife Linda have 2 daughters and 5 grandchildren.

Sharon Casey is an original member of the Board of Economic Development, appointed by Governor Mickelson. She is a businesswoman, formerly co-owner of Casey Drug and Jewelry and serves as a board member for the Economic Development Finance Authority. Sharon remains active in her local community, including as a board member of the Lake Francis Case Development, a council member and a building committee member of the St. James Catholic Church, and a member of the Kiwanis Club. She also has served on the board of the South Dakota Art Museum, Employer Support for the Guard Reserve (ESGR), and is a past President of the Chamberlain Chamber of Commerce. Sharon placed foreign exchange students and teachers with Youth for Understanding from 1971 to 1980. During that time they hosted exchange students from Brazil, Yugoslavia, Norway, Philippines, Holland and France. Sharon attended South Dakota State University. Sharon and her husband now enjoy catching up on the activities of their four children, 12 grandchildren and 3 great grandchildren and taking in frequent travels.

Mike Luken is a native of Watertown, South Dakota. He has been involved in farming in Northeast South Dakota, custom combining, and reconditioning the former Memorial Hospital to develop affordable housing in the community. He has also started numerous businesses that include a tanning salon, Glacial Lakes Bottling and Marketing, and Express Photo with locations in both Watertown and Sioux Falls. Mr. Luken was also part of the Discount Farm Center and later was hired by ABT to manage the operation. Currently Mr. Luken sells real estate for Hoftiezer Real Estate in Watertown. He is a past chairman of the Board for the Watertown Area Chamber of Commerce, serves on the Lake Area Tech Foundation Board and was appointed to the Watertown Municipal Utilities Board by Mayor Gary Williams. Current Mayor Steve Thorson also re-appointed Mr. Luken to serve another 5 year term to the Watertown Municipal Utilities Board and is the current President. Mr. Luken is also involved in many other civic and private organizations. He has one daughter, Jennifer, and a son-in-law, Chris Loiseau, and a 14 year old granddaughter.

Loan Portfolio

Economic Development Finance Authority Activity Loans Approved Fiscal Year 2018

APEX Fund

COMPANY	APEX FUND PROJECTED JOBS	TOTAL LOAN AMOUNT	PROJECT AMOUNT	COMMUNITY
N/A				

FY 2018 Total: 0 loans

EDFA Bonds

COMPANY	BOND FUND PROJECTED JOBS	TOTAL LOAN AMOUNT	PROJECT AMOUNT	COMMUNITY
N/A				

FY 2018 Total: 0 loans

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY**

AUDIT REPORT

Fiscal Year Ended June 30, 2018



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

SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
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427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595

MARTIN L. GUINDON, CPA
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 Dennis Daugaard
Governor of South Dakota

and

Board of Directors
South Dakota Economic Development Finance Authority

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 Economic Development Finance Authority (Authority), a component unit of the State of South Dakota, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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, appearing to read "Martin L. Guindon". The signature is stylized with a large, looped "M" and a cursive "Guindon".

Martin L. Guindon, CPA
Auditor General

September 28, 2018



427 SOUTH CHAPELLE
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(605) 773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

Board of Directors
South Dakota Economic Development Finance Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Economic Development Finance Authority (Authority), a component unit of the State of South Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority'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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-6 be presented to supplement the basic financial statements. Such 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 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 auditing standards generally accepted in the United States of America, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The listing of Economic Development Finance Authority Members and the schedule of Loan Portfolio: Loans Approved Fiscal Year 2018 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018 on our consideration of the Authority'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 Authority'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 Authority's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

September 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Economic Development Finance Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2018. This analysis should be read in conjunction with the Independent Auditor's Report, financial statements, and notes to the financial statements.

Financial Analysis

During the year the Authority received \$830,580 in regularly scheduled pooled loan payments and paid \$839,058 in principal and interest payments on the Series 2013A bonds. Additionally, the Authority received \$225,616 in APEX loan repayments and currently has no debt owed for the APEX loan program. There were no additional APEX or pooled loans issued during the year.

Financial Highlights as of June 30, 2018

- Total assets of the Authority decreased \$376,124 (or 2.01%) primarily due to the decrease in loans receivable for the year ending June 30, 2018.
- Total liabilities of the Authority decreased by \$406,027 (or 4.17%) primarily due to the decrease in bonds payable for the year ending June 30, 2018.
- No new bond issuances or early redemptions of bonds occurred in the year ending June 30, 2018.

Changes in Assets and Liabilities

	Restated FY 2017	FY 2018	Increase (Decrease)	% Increase (Decrease)
Assets:				
Cash and Cash Equivalents	\$ 1,406,706	\$ 1,670,784	\$ 264,078	18.77%
Investments	8,273,241	8,223,830	(49,411)	(0.60)
Loans Receivable	9,336,170	8,745,379	(590,791)	(6.33)
Allowance for Uncollectible Loans	(283,367)	(283,367)	0	0.00
Total Assets	<u>18,732,750</u>	<u>18,356,626</u>	<u>(376,124)</u>	<u>(2.01)</u>
Liabilities:				
Bonds Payable	385,000	395,000	10,000	2.60
Accrued Interest Payable	146,082	111,378	(34,704)	(23.76)
Loan Escrow Payable	855,599	869,276	13,677	1.60
Noncurrent Bonds Payable	8,355,000	7,960,000	(395,000)	(4.73)
Total Liabilities	<u>9,741,681</u>	<u>9,335,654</u>	<u>(406,027)</u>	<u>(4.17)</u>
Restricted Net Position	5,000,000	5,000,000	0	0.00
Unrestricted Net Position	3,991,069	4,020,972	29,903	0.75
Total Net Position	<u>\$ 8,991,069</u>	<u>\$ 9,020,972</u>	<u>\$ 29,903</u>	<u>0.33%</u>

Change in Net Position

	FY 2017	FY 2018	Increase (Decrease)	% Increase (Decrease)
Revenues:				
Interest Income on Loans	\$ 468,899	\$ 462,343	\$ (6,556)	(1.40)%
Investment Income	69,110	63,088	(6,022)	(8.71)
Total Revenues	<u>538,009</u>	<u>525,431</u>	<u>(12,578)</u>	<u>(2.34)</u>
Expenses:				
Interest Expense	459,767	451,892	(7,875)	(1.71)
Contractual Services	44,736	43,636	(1,100)	(2.46)
Total Expenses	<u>504,503</u>	<u>495,528</u>	<u>(8,975)</u>	<u>(1.78)</u>
Change in Net Position	<u>\$ 33,506</u>	<u>\$ 29,903</u>	<u>\$ (3,603)</u>	<u>(10.75)%</u>

- The related decreases to the balances in loans receivable and debt outstanding resulted in the associated decreases to interest income on loans and interest expense.

Debt Administration:

- The Authority did not issue any tax-exempt bonds during fiscal year 2018.
- Outstanding bonds payable bear interest at rates ranging from 3.125% to 5.80% as of June 30, 2018. \$385,000 of regularly scheduled bonds was redeemed during fiscal year 2018.
- The Authority's bonds are rated AA by Standard and Poor's as of June 30, 2018.
- More detailed information about the Authority's debt can be found in Note 4, Long-Term Debt.

This report is presented to provide additional information regarding the operations of the Authority and to meet the requirements of GASB No. 34.

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF NET POSITION
June 30, 2018**

Assets

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 1,663,541
Restricted Cash and Cash Equivalents (Note 2)	7,243
Total Cash and Cash Equivalents	<u>1,670,784</u>

Investments (Note 2)	632,889
Restricted Investments (Note 2)	3,839,851
Investment Interest Receivable	36,035
Loan Interest Receivable	36,719
Loans Receivable (Note 3)	547,127
Total Current Assets	<u>6,763,405</u>

Noncurrent Assets:

Investments (Note 2)	1,719,939
Loans Receivable (Net of Allowance for Loan Loss) (Note 3)	7,878,166
Restricted Investments (Note 2)	1,995,116
Total Noncurrent Assets	<u>11,593,221</u>

Total Assets

18,356,626

Liabilities

Current Liabilities:

Accounts Payable	29
Accrued Interest Payable	111,349
Bonds Payable (Note 4)	395,000
Total Current Liabilities	<u>506,378</u>

Noncurrent Liabilities:

Loan Escrow Payable	869,276
Bonds Payable (Note 4)	7,960,000
Total Noncurrent Liabilities	<u>8,829,276</u>

Total Liabilities

9,335,654

Net Position

Restricted for Debt Service (Note 1)	5,000,000
Unrestricted	<u>4,020,972</u>

Total Net Position

\$ 9,020,972

The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2018**

Operating Revenue:

Interest Income on Loans	\$ 462,343
Total Operating Revenue	<u>462,343</u>

Operating Expenses:

Contractual Services	43,636
Interest Expense	<u>451,892</u>
Total Operating Expenses	<u>495,528</u>

Operating Income (Loss)	(33,185)
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Nonoperating Revenue:

Investment Income	<u>63,088</u>
Total Nonoperating Revenue	<u>63,088</u>

Change in Net Position	29,903
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Net Position at the Beginning of the Year	<u>8,991,069</u>
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Net Position at End of Year	<u><u>\$ 9,020,972</u></u>
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The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2018**

Cash Flows from Operating Activities:

Receipts for Pooled Loan Repayments	\$ 830,580	
Receipts for APEX Loan Repayments	225,616	
Payment to APEX Loan Recipient	(35,513)	
Payments for Contractual Services	(43,723)	
Other Receipts	12,680	
Net Cash Provided by Operating Activities		989,640

Cash Flows from Noncapital Financing Activities:

Principal Paid on Revenue Bonds	(385,000)	
Interest Payments on Loans, Bonds and Notes	(454,058)	
Net Cash Used by Noncapital Financing Activities		(839,058)

Cash Flows from Investing Activities:

Proceeds from Sales and Maturities of Investment Securities	3,107,374	
Investment Income	134,157	
Purchase of Investment Securities	(3,128,035)	
Net Cash Used by Investing Activities		113,496

Net Decrease in Cash and Cash Equivalents During the Fiscal Year		264,078
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Cash and Cash Equivalents at Beginning of Year	1,406,706
Cash and Cash Equivalents at End of Year	\$ 1,670,784

**Reconciliation of Operating Income to Net Cash
Provided (Used) by Operating Activities**

Operating Income (Loss)	\$ (33,185)
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**Adjustments to Reconcile Operating Income
to Net Cash Provided by Operating Activities**

Interest Expense	451,892
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Decrease/(Increase) in Assets:

Loan Interest Receivable	682
Loans Receivable	590,120

Increase/(Decrease) in Liabilities:

Accounts Payable	(32,549)	
Loan Escrow Payable	12,680	
Total Adjustments		1,022,825
Net Cash Provided by Operating Activities		\$ 989,640

The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authorizing Legislation

Executive Order 87-1 established the South Dakota Economic Development Finance Authority (Authority). The Authority was established for the purpose of making loans to businesses for the acquisition and construction of land, buildings, machinery, and equipment to spawn economic growth. The Authority is authorized by South Dakota Codified Law to issue negotiable notes and bonds in such principal amounts as it determines necessary to provide sufficient funds for achieving any of its corporate purposes. The total outstanding amount of such notes and bonds shall not exceed three hundred million dollars at any time. No obligation issued by the Authority shall constitute debt or liability or obligation of the State of South Dakota or any political subdivision or a pledge of the faith and credit of the State or any political subdivision. Because the State of South Dakota is able to impose its will over the Authority, but does not meet any of GASB's criteria for blending, it is considered a discretely presented component unit of the State. The Authority is a business-type activity component unit of the State of South Dakota and, as such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

B. Fund Accounting

The Authority is accounted for as an enterprise fund. Enterprise funds are used to account for activities for which a fee is charged to external users for goods or services. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from fees.

C. Basis of Accounting

The Authority is reported on the accrual basis of accounting. Revenue is recognized in the accounting period in which it is earned and expenses are recognized when they are incurred.

D. Cash and Cash Equivalents

This account includes cash and investments with original maturities of ninety days or less. Cash and cash equivalents reported in the Statement of Cash Flows represent all investments with an original maturity of ninety days or less.

E. Investments

Investments are reported at fair value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

F. Loan Escrow Payable

All bond issues require that 10 percent of the original principal amount of the bond or the largest principal and interest payment for any one year be deposited into the Loan Escrow Payable. Amounts accumulating in excess of the Loan Escrow Payable requirements are applied toward borrower principal and interest payments.

G. Net Position

Net Position is classified in the following three components:

- Net investment in capital assets – This component 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 (1) bond indentures and (2) law through enabling legislation.
- Unrestricted – Consists of net position that does not meet the definition of net investments in capital assets or restricted.

H. Restricted Net Position

The bond indentures provide that certain reserve accounts be established. The reserve accounts, as of June 30, 2018, are comprised of restricted net position as follows:

Capital Reserve Account \$ 5,000,000

The pooled bond issues require amounts to be deposited into the Capital Reserve Account. The money on deposit in the Capital Reserve Account is irrevocably pledged to the payment of all outstanding bonds and interest, only when and to the extent that other moneys are not available. The amount on deposit in the Capital Reserve Account must be equal to at least 12.5 percent of the related bond principal outstanding. Amounts in excess of the reserve requirements may be transferred and used for other purposes.

I. Conduit Debt Obligations

The Authority issues pooled and stand alone bond issues. A pooled bond issue is secured by the Authority's Capital Reserve Account. A stand alone issue is based solely on the credit of the borrower and the Authority acts only as a conduit to the financing.

Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by an entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. The Authority has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued and the debt is not included in the accompanying financial statements. As of June 30, 2018, the aggregate amount of stand-alone bond principal outstanding was \$280,000. The original issue amount of stand-alone bonds outstanding totaled \$4,840,000.

J. Restricted Resources

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

K. Revenue and Expense Recognition

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with an enterprise fund's principal ongoing operations. The Authority records all revenues derived from interest on loans as operating revenues since these revenues are generated from the Authority's daily operations needed to carry out its purpose. Operating expenses include interest expense, grants and subsidies, and contractual service expenses related to the administration of the Authority's programs.

L. 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.

2. CASH AND INVESTMENTS

Under the terms of the General Bond resolution of the 2013A pooled bond issue, the Authority is generally restricted to investments in direct obligations of the federal government and of any agency or instrumentality of the United States of America; debt obligation guaranteed by the federal government; bank instruments collateralized by debt obligations guaranteed by the federal government; and shares of an investment company whose investments are in debt obligations guaranteed by the federal government. The funds associated with the 2013A pooled bond issue can also be invested in notes, bonds, or indentures issued by a corporation organized under the laws of one of the states of the United States of America, provided they are rated in one of the two highest rating categories.

Restricted and Unrestricted Cash and Investments:

A portion of the total reported cash and investments are restricted resources set aside to subsidize potential deficiencies from the enterprise fund's operation that could adversely affect debt services payments. Cash and investments are broken down as follows:

	Fair Value
Unrestricted Cash and Investments	\$ 4,016,369
Restricted Cash and Investments – Capital	
Reserve Account and Loan Reserve Accounts	5,842,210
Total Cash and Investments	<u>\$ 9,858,579</u>

Custodial Credit Risk:

The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value on investment securities and deposits that are in the possession of an outside party. The Authority does not have a policy in place for custodial credit risk. Investments securities totaling \$1,670,498 were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Authority's name.

Interest Rate Risk:

The Authority limits the maturities of investments for its restricted accounts (all accounts other than the General Account) to terms of two years or less from the date of investment. As of June 30, 2018, the Authority had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-5	6-10
U.S. Treasury Note	\$ 1,059,007	\$ 782,388	\$ 276,619	\$ 0
U.S. Government Agencies*	1,040,524	891,798	148,726	0
Municipal Bonds	365,559	0	284,962	80,597
Certificates of Deposit	5,722,705	2,798,554	2,924,151	0
Total	<u>\$ 8,187,795</u>	<u>\$ 4,472,740</u>	<u>\$ 3,634,458</u>	<u>\$ 80,597</u>

* U.S. Government Agency securities include the Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA) and the Federal Home Loan Bank (FHLB).

Credit Risk:

The Investment Management Policy of the Authority limits investments in Corporate Bonds to those rated in either of the two highest rating categories by either Moody's Investors Service or Standard & Poor's Corporation.

As of June 30, 2018, the Authority had the following investments, excluding those issued by or explicitly guaranteed by the U.S. Government or insured by FDIC, which are not considered to have credit risk.

Moody's Rating	Fair Value
AA+	\$ 101,558
AAA	<u>1,304,525</u>
	<u><u>\$ 1,406,083</u></u>

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Authority does not have a policy on concentration of credit risk. The Authority does not have any concentration of credit risk, excluding any government issues.

The Authority's policy permits the maximum portfolio exposure to permitted investments as follows:

	Restricted Account Portfolio Exposure		Unrestricted Account Portfolio Exposure	
	Total	Individual	Total	Individual
U.S. Governments	100%	100%	100%	100%
U.S. Agencies	100%	100%	100%	100%
Repurchase Agreements	50%	25%	50%	25%
Corporate Bonds	0%	0%	50%	10%
Municipal Bonds	0%	0%	50%	10%
Certificates of Deposit	100%	100%	100%	100%
Money Market Funds	25%	25%	25%	25%

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

First National Bank (FNB), which serves as trustee, uses a pricing service, ICE Data Pricing and Referencing, LLC., to value investments. ICE Data Pricing and Referencing, LLC uses market approach pricing which utilizes models and pricing systems as well as mathematical tools and pricing analyst judgment. All investments are priced by this service, which is not quoted prices in an active market, but rather significant other observable inputs; therefore, the investments in U.S. Treasury Notes, U.S. Government Agencies, and Municipal Bonds are categorized as Level 2.

3. LOANS RECEIVABLE

Change in loans receivable for the year ending June 30, 2018 consisted of the following:

Beginning Balance	\$ 9,266,317
Pooled Loans Principal Payments	(387,500)
APEX Program Loan Principal Payments	(202,609)
Principal portion of Prior Year Adjustment (Note 6)	32,452
Loans Receivable – Before Allowance	8,708,660
Allowance for Loan Loss applicable to the Pooled Loan Program	(218,019)
to the APEX Loan Program	(65,348)
TOTAL LOANS RECEIVABLE – Net of Allowance	\$ 8,425,293

The Allowance for Loan Loss applicable to the Pooled Loans is 1% for the year ending June 30, 2018. The pooled loan associated with the 2013A bond issuance has an ending balance of \$8,256,250 before allowance.

The Agricultural Processing and Export (APEX) Program was created in 1988 when loans from Rural Development (RD) and Revolving Economic Development and Initiative Fund were issued to the Authority. The Authority has no outstanding loans from RD for the year ending June 30, 2018. The APEX loan program is structured to encourage processors to add value to South Dakota's raw agricultural products, export them outside the state, and to locate industry in rural communities.

4. LONG-TERM DEBT

Tax exempt debt in the form of revenue bonds was issued by the Authority. The following represents the changes in revenue bonds for the pooled bond program as of June 30, 2018:

Beginning Balance	\$ 8,740,000
Bonds Retired	<u>(385,000)</u>
Ending Balance	<u>\$ 8,355,000</u>
Due Within One Year	<u>\$ 395,000</u>

The following are the revenue bonds outstanding for the pooled bond program at June 30, 2018:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity Through</u>	<u>Principal Balance</u>
Series 2013A			
Serial Bonds	4.00%	2021	\$ 420,000
Term Bonds	3.125-5.80%	2033	<u>7,935,000</u>
			<u>\$ 8,355,000</u>

The following is a schedule of future bond payments and future interest payments remaining at June 30, 2018:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>
2019	\$ 395,000	\$ 445,395	\$ 840,395
2020	405,000	433,051	838,051
2021	420,000	420,395	840,395
2022	435,000	403,595	838,595
2023	455,000	383,368	838,368
2024-2028	2,685,000	1,516,990	4,201,990
2029-2033	<u>3,560,000</u>	<u>642,640</u>	<u>4,202,640</u>
Total	<u>\$ 8,355,000</u>	<u>\$ 4,245,434</u>	<u>\$ 12,600,434</u>

5. PUBLIC ENTITY POOL FOR LIABILITY

The Authority 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 Authority 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 program includes 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. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

6. PRIOR PERIOD ADJUSTMENT

An APEX borrower made payments from June 1, 2013 to February 1, 2018 to the Authority based on a 10 year amortization schedule. The correct amortization schedule is 20 years. A prior period restatement was made in the amount of \$32,452 for the overpayment of loan principal. The restatement increased loans receivable and accounts payable and did not affect net position. The total amount refunded to the institution was \$35,513 which included an adjustment for loan interest.

SOUTH DAKOTA

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

711 EAST WELLS AVENUE, PIERRE, SOUTH DAKOTA 57501
605-773-GOED • WWW.SDREADYTOWORK.COM