

South Dakota

EDFA

Economic Development
Finance Authority

June 30, 2013 Annual
Financial Report



ready to work

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT
SOUTH DAKOTA

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Economic Development Finance Authority Members

Terry Nelson 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. Mr. Nelson was previously a Realtor in Rapid City. Presently Terry serves on The South Dakota Alumni Advocacy Board and on the SDSU Foundation. He is past President of South Dakota Associated School Board and is involved in numerous other civic organizations. The last three years he has been President of the BID board which help develop and finance Main Street Square Plaza in downtown Rapid City.

Gerrit Juffer is President of Juffer Inc., a financial service company with offices in Wagner, Parkston, Mitchell, Woonsocket, Huron, Tea and Sioux Falls, South Dakota, along with Blair and Sargent, Nebraska. Mr. Juffer has 32 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.

Casey Derflinger grew up at Hermosa, SD. He attended grade school in Hermosa, high school at Rapid City Central, and graduated from SDSU with degrees in Ag Business and Commercial Economics and also a graduate of the Graduate School of Banking in Boulder, CO. Mr. Derflinger has been in banking since 1983, and have been with First Interstate Bank since 1990. He is currently the Southern Hills Market Manager and oversee branches in Custer, Hot Springs, Hill City and Edgemont. Locally, Casey is involved with the Custer Chamber of Commerce, Custer Economic Development Corporation, and Custer Rotary Club. Regionally, he is the current chair of Black Hills Economic Development Corporation and past chair of the Ag/Commercial Credit Committee for the South Dakota Bankers Association and also sits on several non-profit and conservation boards. Casey and his wife Thia, have 3 children and 8 grandchildren.

Michael Keller earned a Bachelor of Science degree in Education in 1970 and later earned a JD in law in 1974, both from the University of South Dakota and he is currently the Dean of the Business School at USD. Dean Keller was the president and co-owner of Oddjobs.com, Executive Vice President of Chicago Title Insurance. He also held many executive positions within Wells Fargo Corporation. He serves on the State Chamber Board of Directors, as well as other numerous academic groups.

Jody Sperlich is currently the Director of Operations for the Rapid City Convention and Visitors Bureau (CVB), whose mission is to market Rapid City to the world as a visitor and meetings destination. Prior to joining the CVB, Jody served as CEO of a local start-up company that manufactured firefighting equipment and spent over 10 years in various management roles within the credit card banking business. She is a graduate of the University of South Dakota with a Bachelor of Science degree in Business Management. Jody enjoys spending her free time “upcycling” and distressing vintage furniture and décor that she sells at local art shows. Nothing brings her more joy though than spending time with her two teenage children, Molly and Taylor.

Stephen F. Jones is 27 years old and lives in rural Jefferson, South Dakota . At age 20, Stephen bought Claussen Nursery at which time was just a nursery center. Since August 2007 he has added Landscape Design, Landscape Consultation, Design Build Landscape Construction, General Landscape Contracting, Landscape Excavation, Property Management and Private Community Management. Stephen is a young entrepreneur and his life goal is to continue to grow in the business world and continue to look for business opportunities in South Dakota. He enjoys outdoor activities and enjoys heading to West River to ski during the winter. Stephen enjoys talking with people of all kinds hearing their stories.

Ronald Wagner graduated from Northern State University with a Bachelor of Science degree in Business Administration with a major in finance and minor and economics. From there he was a Claims Analyst with the State of South Dakota Petroleum Release Compensation Fund for 5 years and administered the SDHDA’s HUD HOME Program as a Housing Development Officer with the South Dakota Housing Development Authority for 13 years. Ron currently works for First National Bank in Pierre as a Commercial Loan Officer and also serves on the Pierre Economic Development Corporation Board. Ron and his wife Lynda have three kids and two grandkids.

Loan Portfolio

Economic Development Finance Authority Activity Loans Approved Fiscal Year 2013

APEX Fund

COMPANY	APEX FUND PROJECTED JOBS*	TOTAL LOAN AMOUNT	PROJECT AMOUNT	COMMUNITY
Divine Concrete, Inc.	4	\$165,000.00	\$300,000.00	Bonesteel
Enclose Manufacturing, Inc.	8	\$106,250.00	\$212,500.00	Mitchell
Fromm's Hardware & Plumbing	2	\$151,500.00	\$582,500.00	Kadoka
Oat Tech, Inc.	10	\$145,000.00	\$372,730.00	Brookings
FY 2013 Total: 4 loans				
	24	\$567,750.00	\$1,467,730.00	

EDFA Bonds

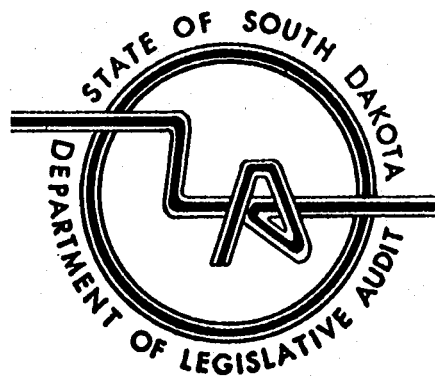
COMPANY	BOND FUND PROJECTED JOBS*	TOTAL LOAN AMOUNT	PROJECT AMOUNT	COMMUNITY
Marmen Energy Company	250	\$10,000,000.00	\$48,000,000.00	Brandon
FY 2013 Total: 1 loan				
	250	\$10,000,000.00	\$48,000,000.00	

* Full-time equivalent jobs to be created within three years after loan closing.

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY**

AUDIT REPORT

Fiscal Year Ended June 30, 2013



**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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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, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the South Dakota Economic Development Finance 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 South Dakota Economic Development Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Economic Development Finance 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 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

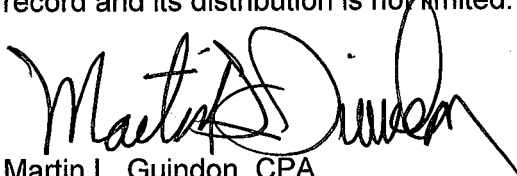
As part of obtaining reasonable assurance about whether the South Dakota Economic Development Finance Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Current Audit Finding and Recommendation as items 2013-001.

Economic Development Finance Authority's Response to Findings

Economic Development Finance Authority's response to the finding identified in our audit is described in the accompanying Current Audit Finding and Recommendation. Economic Development Finance Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Martin L. Guindon, CPA
Auditor General

October 28, 2013

ECONOMIC DEVELOPMENT FINANCE AUTHORITY
CURRENT AUDIT FINDING AND RECOMMENDATION

State Compliance Audit Finding:

Finding No. 2013-001:

Sufficient documentation was not obtained from an Agricultural Processing and Exporting (APEX) borrower as required by state law and federal regulations.

Type of Finding: Noncompliance

Analysis:

The Economic Development Finance Authority issues APEX loans to encourage and assist the development of companies in communities which have a population of less than 25,000 that add value to raw agricultural products through processing. Certain state laws and federal regulations govern the requirements borrowers must meet when applying for APEX loans, including the following.

SDCL 1-16B-41 states:

Loans made only when other loans not available. The authority shall require the applicant enterprise to investigate fully other sources of funding for a development project. Such loans shall be made only after a determination by the authority that sufficient development project loans are not otherwise available from private or public lenders upon reasonably equivalent terms and conditions.

Title 7 of the Code of Federal Regulations (CFR), part 4274, subpart D governs the Intermediary Relending Program (IRP), also known as the state APEX program. 7 CFR 4274.308 states:

(b) To be eligible to receive loans from the IRP revolving loan fund, ultimate recipients:

.....

(3) Must be unable to finance the proposed project from its own resources or through commercial credit or other Federal, State, or local programs at reasonable rates and terms.

The two APEX loans issued during the fiscal year were reviewed to ensure they were made in accordance with state law and federal regulations. For one loan made in the amount of \$106,250, sufficient documentation was not obtained by the Authority to satisfy the requirement that the applicant was unable to obtain a loan from public or private lenders at reasonably equivalent terms or conditions. The loan was made from IRP revolved funds which, although they are not considered federal funds, must still follow the federal regulations. As a result, the loan file did not contain adequate support showing compliance with state law and federal regulations.

RECOMMENDATION:

1. We recommend the Authority ensure loans are properly documented.

Corrective Action Plan:

Staff will ensure the files contain documentation indicating the applicant was unable to obtain a loan from private or public lenders upon reasonably equivalent terms and conditions.



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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, a component unit of the State of South Dakota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the South Dakota Economic Development Finance 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 South Dakota Economic Development Finance Authority as of June 30, 2013, 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

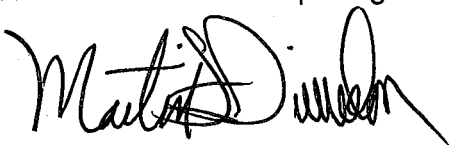
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 South Dakota Economic Development Finance Authority's basic financial statements. The listing of Economic Development Finance Authority Members and the schedule of Loan Portfolio: Loans Approved Fiscal Year 2013 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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 October 28, 2013 on our consideration of the South Dakota Economic Development Finance 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 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 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 South Dakota Economic Development Finance Authority's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

October 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Economic Development Finance Authority's (EDFA) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2013. This analysis should be read in conjunction with the Independent Auditor's Report, financial statements, and notes to the financial statements.

Financial Highlights as of June 30, 2013

- Total assets of the EDFA decreased \$1,746,438 (or 5.24%) primarily due to the decrease in loans receivable for the year ending June 30, 2013.
- Total liabilities of the EDFA decreased by \$1,771,373 (or 7.25%) primarily due to the decrease in bonds payable and no bonds being issued for the year ending June 30, 2013.

Changes in Assets and Liabilities

	<u>FY 2012</u>	<u>FY 2013</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Assets:				
Cash and Cash Equivalents	\$ 2,220,589	\$ 2,104,366	\$ (116,223)	(5.23)%
Investments	9,804,843	9,411,222	(393,621)	(4.01)
Loans Receivable	21,613,114	20,370,746	(1,242,368)	(5.75)
Allowance for Uncollectible Loans	(363,724)	(363,724)	0	(0)
Other	48,939	54,713	5,774	11.80
Total Assets	<u>33,323,761</u>	<u>31,577,323</u>	<u>(1,746,438)</u>	<u>(5.24)</u>
Liabilities:				
Amounts Held in Custody for Others	116,908	119,043	2,135	1.83
Bonds Payable	1,315,000	1,035,000	(280,000)	(21.29)
Accrued Interest Payable	319,638	288,523	(31,115)	(9.73)
Other	2,827,544	2,643,568	(183,976)	(6.51)
Loan Escrow Payable	1,329,592	1,086,175	(243,417)	(18.31)
Noncurrent Bonds Payable	18,540,000	17,505,000	(1,035,000)	(5.58)
Total Liabilities	<u>24,448,682</u>	<u>22,677,309</u>	<u>(1,771,373)</u>	<u>(7.25)</u>
Restricted Net Position	5,000,000	5,000,000	0	0.00
Unrestricted Net Position	3,875,079	3,900,014	24,935	0.64
Total Net Position	<u>\$ 8,875,079</u>	<u>\$ 8,900,014</u>	<u>\$ 24,935</u>	<u>0.28%</u>

Change in Net Position

	FY 2012	FY 2013	Increase (Decrease)	% Increase (Decrease)
Revenues:				
Interest Income on Loans	\$ 1,258,344	\$ 1,195,579	\$ (62,765)	(4.99)%
Investment Income	91,122	44,206	(46,916)	(51.49)
Total Revenues	<u>1,349,466</u>	<u>1,239,785</u>	<u>(109,681)</u>	<u>(8.13)</u>
Expenses:				
Interest Expense	1,214,678	1,145,612	(69,066)	(5.69)
Contractual Services	276,542	69,238	(207,304)	(74.96)
Total Expenses	<u>1,491,220</u>	<u>1,214,850</u>	<u>(26,370)</u>	<u>(18.53)</u>
Change in Net Position	<u>\$ (141,754)</u>	<u>\$ 24,935</u>	<u>\$ 166,689</u>	<u>117.59%</u>

- The related decreases to the balances in loans receivable and debt outstanding resulted in the associated decreases to interest income on loans, investment income and interest expense.
- Contractual services decreased by \$207,304 (or 74.96%) primarily due to the expenses associated with an unsuccessful issuance of bonds in fiscal year 2012.

Debt Administration:

- The Authority did not issue tax-exempt bonds during fiscal year 2013.
- Outstanding bonds payable bear interest at rates ranging from 4.00% to 6.05% as of June 30, 2013. \$1,315,000 of regularly scheduled bonds was redeemed during fiscal year 2013.
- The Authority's bonds are rated A+ by Standard and Poor's as of June 30, 2013.
- 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 EDFA and to meet the requirements of GASB No. 34.

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF NET POSITION
June 30, 2013**

Assets

Current Assets:

Cash and Cash Equivalents (Note 2)	\$	2,053,062
Restricted Cash & Cash Equivalents (Note 2)		51,304
Total Cash and Cash Equivalents		2,104,366
Investments (Note 2)		2,394,563
Restricted Investments (Note 2)		3,745,616
Investment Interest Receivable		19,544
Loan Interest Receivable		91,127
Loans Receivable (Note 3)		1,579,729
Accounts Receivable		9,400
Total Current Assets		9,944,345

Noncurrent Assets:

Investments (Note 2)		963,534
Loans Receivable (Net of Allowance for Loan Loss) (Note 3)		18,336,166
Restricted Investments (Note 2)		2,287,965
Deferred Charges		45,313
Total Noncurrent Assets		21,632,978

Total Assets

31,577,323

Liabilities

Current Liabilities:

Accounts Payable		14,990
Accrued Interest Payable		273,533
Due To Other Governments (Note 6)		185,815
Bonds Payable (Note 4)		1,035,000
Amounts Held in Custody for Others		119,043
Total Current Liabilities		1,628,381

Noncurrent Liabilities:

Due to Other Governments (Note 6)		2,457,753
Loan Escrow Payable		1,086,175
Bonds Payable (Note 4)		17,505,000
Total Noncurrent Liabilities		21,048,928

Total Liabilities

22,677,309

Net Position

Restricted for Debt Service (Note 1)		5,000,000
Unrestricted		3,900,014

Total Net Position

\$ 8,900,014

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 FUND NET POSITION
For the Fiscal Year Ended June 30, 2013**

Operating Revenue:	
Interest Income on Loans	\$ 1,195,579
Total Operating Revenue	<u>1,195,579</u>
Operating Expenses:	
Contractual Services	69,238
Interest Expense	1,145,612
Total Operating Expenses	<u>1,214,850</u>
Operating Income (Loss)	(19,271)
Nonoperating Revenue:	
Investment Income	44,206
Total Nonoperating Revenue	<u>44,206</u>
Change in Net Position	24,935
Net Position at the Beginning of the Year	<u>8,875,079</u>
Net Position at End of Year	<u><u>\$ 8,900,014</u></u>

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, 2013**

Cash Flows from Operating Activities:		
Receipts for Bond Repayments	\$ 2,359,113	
Receipts for Loan Repayments	375,333	
Payments to Loan Recipients	(296,500)	
Payments for Contractual Services	(93,476)	
Other Payments	(240,469)	
Net Cash Provided by Operating Activities		2,104,001
Cash Flows from Noncapital Financing Activities:		
Principal Paid on Revenue Bonds	(1,315,000)	
Interest Payments on Loans, Bonds and Notes	(1,158,263)	
Principal Paid on Loans to RD	(183,976)	
Net Cash Used by Noncapital Financing Activities		(2,657,239)
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investment Securities	7,457,591	
Investment Income	72,448	
Purchase of Investment Securities	(7,093,024)	
Net Cash Provided by Investing Activities		437,015
Net Decrease in Cash and Cash Equivalents During the Fiscal Year	\$	(116,223)
Cash and Cash Equivalents at Beginning of Year		2,220,589
Cash and Cash Equivalents at End of Year	\$	<u>2,104,366</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$	(19,271)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Interest Expense	1,141,987	
Amortization Expense	3,625	
Decrease/(Increase) in Assets:		
Loan Interest Receivable	3,306	
Loans Receivable	1,239,061	
Accounts Receivable	(9,400)	
Increase/(Decrease) in Liabilities:		
Accounts Payable	(14,838)	
Loan Escrow Payable	(242,604)	
Amounts Held for Others	2,135	
Total Adjustments		2,123,272
Net Cash Provided by Operating Activities	\$	<u>2,104,001</u>

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, 2013**

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. 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. Amounts Held In Custody for Others

Represents assets that actually belong to the borrower but are maintained by the Authority in Project Fund Accounts. Moneys in these accounts are used to pay administrative expenses.

H. Restricted Net Position

The bond indentures provide that certain reserve accounts be established. The reserve accounts, as of June 30, 2013, are comprised of restricted net position as follows:

Capital Reserve Account	\$ 5,000,000
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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 Finance 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, 2013, the aggregate amount of stand-alone bond principal outstanding was \$22,572,681. The original issue amount of stand-alone bonds totaled \$30,870,000.

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 2004A, 2004B, 2005A, 2008, and 2009A&B pooled bond issues, 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 2004A, 2004B, 2005A, 2008, and 2009A&B pooled bond issues 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:

	<u>Fair Value</u>
Unrestricted Cash and Investments	\$ 5,411,159
Restricted Cash and Investments – Capital Reserve Account and Loan Reserve Accounts	<u>6,084,885</u>
Total Cash and Investments	<u>\$ 11,496,044</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. Deposits totaling \$1,675,753 and investment securities totaling \$1,930,410 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, 2013 the Authority had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
U.S. Treasury Note	\$ 1,570,926	\$ 1,570,926	\$ 0
U.S. Treasury Strips	62,954	62,954	0
U.S. Government Agencies*	41,870	0	41,870
Certificates of Deposit	7,715,928	4,506,300	3,209,628
Total	<u>\$ 9,391,678</u>	<u>\$ 6,140,180</u>	<u>\$ 3,251,498</u>

* = U.S. Government Agency securities include Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), and Federal Home Loan Mortgage Global (FHLMG).

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, 2013, the Authority had the following investments, excluding those issued by or explicitly guaranteed by the U.S. Government which are not considered to have credit risk.

<u>Moody's Rating</u>	<u>Fair Value</u>
Aaa-mf	\$ 1,929,937

Concentration 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.

As of June 30, 2013, the Authority has the maximum portfolio exposure to permitted investments:

	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%
Money Market Funds	25%	25%	25%	25%

3. LOANS RECEIVABLE

Change in loans receivable for the year ending June 30, 2013 consisted of the following:

Beginning Balance	\$ 21,518,681
New Apex Program Loans	296,500
Pooled Loans Principal Payments	(1,245,000)
APEX Program Loan Principal Payments	(290,562)
Loans Receivable – Before Allowance	<u>20,279,619</u>
Allowance for Loan Loss applicable to the Pooled Loan Program	(182,813)
to the APEX Loan Program	<u>(180,911)</u>
TOTAL LOANS RECEIVABLE – Net of Allowance	<u>\$ 19,915,895</u>

The Allowance for Loan Loss applicable to the Pooled Loans is 1% for the year ending June 30, 2013.

The Agricultural Processing and Export (APEX) Program was created in 1988 when loans (Note 6) from Rural Development, and Revolving Economic Development and Initiative Fund were issued to the Economic Development Finance Authority. 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, 2013:

Beginning Balance	\$ 19,855,000
Bonds Retired	(1,315,000)
Ending Balance	<u>\$ 18,540,000</u>
Due Within One Year	<u>\$ 1,035,000</u>

The following are the revenue bonds outstanding for the pooled bond program at June 30, 2013:

Issue	Interest Rate	Maturity Through	Principal Balance
Series 2004A			
Term Bonds	5.000%	2014	\$ 140,000
Term Bonds	6.000%	2029	3,820,000
			<u>3,960,000</u>
Series 2004B			
Term Bonds	5.000%	2014	145,000
Term Bonds	5.950%	2024	2,330,000
			<u>2,475,000</u>
Series 2005A			
Serial Bonds	5.50-5.75%	2016	570,000
Term Bonds	6.05%	2026	3,225,000
			<u>3,795,000</u>
Series 2008			
Serial Bonds	4.75-4.85%	2015	575,000
Term Bonds	5.875%	2028	5,795,000
			<u>6,370,000</u>
Series 2009A&B			
Serial Bonds	4.00-4.35%	2016	905,000
Term Bonds	5.00%	2019	1,035,000
			<u>1,940,000</u>
Total			<u>\$ 18,540,000</u>

The following is a schedule of future bond payments and future interest payments remaining at June 30, 2013:

Year Ended June 30	Principal	Interest	Total Principal and Interest
2014	\$ 1,035,000	\$ 1,066,739	\$ 2,101,739
2015	1,090,000	1,017,589	2,107,589
2016	1,145,000	962,134	2,107,134
2017	1,215,000	899,601	2,114,601
2018	1,275,000	830,394	2,105,394
2019-2023	5,920,000	3,092,589	9,012,589
2024-2028	6,145,000	1,214,671	7,359,671
2029	715,000	42,900	757,900
Total	<u>\$ 18,540,000</u>	<u>\$ 9,126,617</u>	<u>\$ 27,666,617</u>

5. LOAN COMMITMENTS

At June 30, 2013, the Economic Development Finance Authority had the following loan commitments.

Pooled Loans	\$ 15,000,000
Agricultural Processing and Export Program (APEX) Loans	<u>106,250</u>
Total	<u>\$ 15,106,250</u>

6. DUE TO'S

Due To's reported on the balance sheet consist of loans from Rural Development (RD). These loans were used to make loans to APEX recipients. Due To's reported on the Statement of Net Position consist of the following:

Beginning Balance	\$ 2,827,544
Payments to RD	<u>(183,976)</u>
TOTAL DUE TO'S	<u>\$ 2,643,568</u>

CFDA Number: 10.767
Federal Agency: Rural Business & Cooperative Development Service
Program: Intermediary Relending Program
State Agency: Tourism & State Development
Outstanding Loans: \$2,643,568

The Governor's Office of Economic Development, through the Economic Development Finance Authority (EDFA), participates in the Agricultural Processing and Export (APEX) Loan Program with funds obtained from the Rural Economic and Community Development (RECD) Intermediary Relending Program (IRP). The EDFA has entered into loan agreements with the RECD in the amount of \$3,000,000. The EDFA makes loans to small businesses and draws down federal funds from the loan with the RECD to cover 70% of the loans made to small businesses. As of June 30, 2013 EDFA had \$2,643,568 in outstanding loans from Rural Development.

7. 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 is uninsured for property loss. 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.