



SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2015



Ketel Thorstenson, LLP
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SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor’s Report	1-2
<i>Financial Statements:</i>	
Statement of Net Position	3
Statement of Activities.	4-5
Balance Sheet – General Fund	6
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Activities	7
Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund	8
Reconciliation of Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities.	9
Statement of Net Position – Proprietary Fund.	10
Statement of Revenues, Expenditures and Changes in Fund Net Position – Proprietary Fund.	11
Statement of Cash Flows – Proprietary Fund.	12
Notes to Financial Statements	13-27
<i>Supplementary Information:</i>	
Schedule of Operations Expenses	28
<i>Other Reports:</i>	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance as Required by OMB Circular A-133	31-32
<i>Single Audit Section:</i>	
Schedule of Findings and Questioned Costs	33
Schedule of Expenditures of Federal Awards	34



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
South Dakota Ellsworth Development Authority
Rapid City, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **South Dakota Ellsworth Development Authority** (the Authority), a component unit of the State of South Dakota, as of and for the year ended June 30, 2015, 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 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, the business-type activities, and each major fund of the Authority as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require 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 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Operations Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015 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, 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 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 Authority's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

November 19, 2015

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South Dakota Ellsworth Development Authority
Statement of Net Position
June 30, 2015

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Cash	\$ 2,543,195	\$ 248,170	\$ 2,791,365
Accounts Receivable	1,625	308,625	310,250
Prepaid Expenses	4,884	2,091	6,975
Long-term Notes Receivable	225,000	-	225,000
Contract for Deed	110,000	-	110,000
Capital Credits	-	3,035	3,035
Assets Held for Development, Net	4,978,320	-	4,978,320
Land & Easements	568,214	-	568,214
Buildings	-	16,871,701	16,871,701
Improvements	-	6,920,781	6,920,781
Equipment	3,956	-	3,956
Accumulated Depreciation	<u>(3,956)</u>	<u>(769,286)</u>	<u>(773,242)</u>
TOTAL ASSETS	<u>8,431,238</u>	<u>23,585,117</u>	<u>32,016,355</u>
LIABILITIES			
Accounts Payable	55,304	207,507	262,811
Accrued Interest	-	144,034	144,034
Unearned Revenue	2,390,431	-	2,390,431
Long-term Debt:			
Due in One Year	-	903,195	903,195
Due in More than One Year	<u>1,620,500</u>	<u>22,786,065</u>	<u>24,406,565</u>
TOTAL LIABILITIES	<u>4,066,235</u>	<u>24,040,801</u>	<u>28,107,036</u>
NET POSITION			
Net Investment in Capital Assets	568,214	515,733	1,083,947
Unrestricted (Deficit)	<u>3,796,789</u>	<u>(971,417)</u>	<u>2,825,372</u>
TOTAL NET POSITION	<u>\$ 4,365,003</u>	<u>\$ (455,684)</u>	<u>\$ 3,909,319</u>

The accompanying notes are an integral part of this statement.

South Dakota Ellsworth Development Authority
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Charges for Services
GOVERNMENTAL ACTIVITIES		
Compatible Use	\$ 534,773	\$ 22,175
Total Governmental Activities	<u>534,773</u>	<u>22,175</u>
BUSINESS-TYPE ACTIVITIES		
Waste Water Treatment	<u>2,221,177</u>	<u>2,291,187</u>
Total Business-type Activities	<u>2,221,177</u>	<u>2,291,187</u>
Total Primary Government	<u>\$ 2,755,950</u>	<u>\$ 2,313,362</u>

The accompanying notes are an integral part of this statement.

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-type Activities	Total
\$ 500,000	\$ 1,333,319	\$ 1,320,721	\$ -	\$ 1,320,721
<u>500,000</u>	<u>1,333,319</u>	<u>1,320,721</u>	<u>-</u>	<u>1,320,721</u>
-	-	-	70,010	70,010
-	-	-	70,010	70,010
<u>\$ 500,000</u>	<u>\$ 1,333,319</u>	<u>1,320,721</u>	<u>70,010</u>	<u>1,390,731</u>
GENERAL REVENUES				
Unrestricted Investment Earnings		3,992	3,035	7,027
Other General Revenues		13,047	-	13,047
Impairment of Property		(1,527,680)	-	(1,527,680)
Donation of Property to Other Government		(1,330,980)	-	(1,330,980)
Transfers, Net of Capital Contributions		<u>528,729</u>	<u>(528,729)</u>	<u>-</u>
Total General Revenues, Losses, Donations, and Transfers		<u>(2,312,892)</u>	<u>(525,694)</u>	<u>(2,838,586)</u>
CHANGE IN NET POSITION		(992,171)	(455,684)	(1,447,855)
NET POSITION - BEGINNING		<u>5,357,174</u>	<u>-</u>	<u>5,357,174</u>
NET POSITION - ENDING		<u>\$ 4,365,003</u>	<u>\$ (455,684)</u>	<u>\$ 3,909,319</u>

The accompanying notes are an integral part of this statement.

South Dakota Ellsworth Development Authority
Balance Sheet - General Fund
June 30, 2015

	<u>General Fund</u>
ASSETS	
Cash	\$ 2,543,195
Accounts Receivable	1,625
Prepaid Expenses	4,884
Long-term Notes Receivable	225,000
Contract for Deed	110,000
Assets Held for Development, Net	<u>4,978,320</u>
TOTAL ASSETS	<u><u>\$ 7,863,024</u></u>
LIABILITIES	
Accounts Payable	\$ 55,304
Unearned Revenue	<u>2,390,431</u>
TOTAL LIABILITIES	<u>2,445,735</u>
DEFERRED INFLOWS OF RESOURCES	
Contributions Not "Available"	<u>4,420,770</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>4,420,770</u>
FUND BALANCE	
Nonspendable:	
Noncurrent Notes Receivable	225,000
Contract for Deed	110,000
Assets Held for Development, Net of Deferred Inflows of Resources	557,550
Prepaid Expenses	4,884
Unassigned	<u>99,085</u>
TOTAL FUND BALANCE	<u>996,519</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u><u>\$ 7,863,024</u></u>

The accompanying notes are an integral part of this statement.

South Dakota Ellsworth Development Authority
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Activities
June 30, 2015

Total Governmental Fund Balance	\$ 996,519
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 governmental funds.	568,214
Revenue from donated land held for development is not available to pay current period expenditures and therefore, is a deferred inflow of resources in the General Fund.	4,420,770
Long-term debt is not due and payable in the current period and therefore is not reported as a liability in the General Fund.	<u>(1,620,500)</u>
Net Position of Governmental Activities	<u>\$ 4,365,003</u>

The accompanying notes are an integral part of this statement.

South Dakota Ellsworth Development Authority
Statement of Revenues, Expenditures and Changes in
Fund Balance - General Fund
For the Year Ended June 30, 2015

	<u>General Fund</u>
REVENUES	
State Revenue:	
Operating Grants	\$ 300,000
Capital Grants	1,333,319
Local Revenue:	
Operating Contributions from Private Parties	200,000
Charges for Services	22,175
Investment Income	3,992
Miscellaneous	13,047
Total Revenues	1,872,533
EXPENDITURES	
Compatible Use	534,333
Capital Outlays	3,366,582
Total Expenditures	3,900,915
Deficiency of Revenues Under Expenditures	(2,028,382)
OTHER FINANCING SOURCES (USES)	
Debt Proceeds	4,837,859
Losses on Sale of Property	(5,344)
Total Other Financing Sources (Uses)	4,832,515
CHANGE IN FUND BALANCES	2,804,133
FUND BALANCES - BEGINNING	(1,807,614)
FUND BALANCES - ENDING	\$ 996,519

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority
 Reconciliation of Governmental Fund Statement of Revenues,
 Expenditures and Changes in Fund Balance to the Statement of Activities
 For the Year Ended June 30, 2015**

Total Governmental Fund Net Change in Fund Balances	\$	2,804,133
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		3,366,142
<p>Governmental funds do not report impairments of assets, but rather proceeds from disposal of assets. On the Statement of Activities, impairments are recognized net of any proceeds received.</p>		(1,522,336)
<p>Proceeds from long-term debt are recorded as other financing sources in the governmental funds. However, in the Statement of Activities proceeds increase long-term liabilities.</p>		(4,837,859)
<p>Governmental funds do not report the donation of capital assets to other governments. However, in the Statement of Activities, the cost of the assets donated is reported as an expense of the Governmental Activities.</p>		(1,330,980)
<p>Capital Assets purchased by the Governmental Activities and transferred to the Business-Type Activities are not reported in the General Fund. However, the cost of the assets transferred is reported as a capital contribution expense in the Statement of Activities.</p>		(23,792,482)
<p>Long-term debt held and related accrued interest by the Governmental Activities and transferred to the Business-type Activities are not reported in the General Fund. However, the amount of debt transferred is reported as a transfer in the Statement of Activities.</p>		<u>24,321,211</u>
Change in Net Position of Governmental Activities	\$	<u>(992,171)</u>

The accompanying notes are an integral part of this statement.

South Dakota Ellsworth Development Authority
Statement of Net Position - Proprietary Fund
June 30, 2015

	<u>Waste Water Treatment Plant</u>
ASSETS	
Current Assets	
Cash	\$ 248,170
Accounts Receivable	308,625
Prepaid Expenses	<u>2,091</u>
Total Current Assets	<u>558,886</u>
Capital Assets	
Buildings	16,871,701
Improvements	6,920,781
Accumulated Depreciation	<u>(769,286)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>23,023,196</u>
Noncurrent Assets	
Capital Credits	<u>3,035</u>
TOTAL ASSETS	<u>23,585,117</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	207,507
Accrued Interest	144,034
Current Maturities of Long-term Debt	<u>903,195</u>
Total Current Liabilities	1,254,736
Long-term Liabilities	<u>22,786,065</u>
TOTAL LIABILITIES	<u>24,040,801</u>
NET POSITION	
Net Investment in Capital Assets	515,733
Unrestricted (Deficit)	<u>(971,417)</u>
TOTAL NET POSITION	<u>\$ (455,684)</u>

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority
Statement of Revenues, Expenditures and Changes in
Fund Net Position - Proprietary Fund
For the Year Ended June 30, 2015**

	<u>Waste Water Treatment Plant</u>
OPERATING REVENUES	
Revenues Pledged to Service Long-term Debt:	
Charges for Services	\$ 2,291,187
TOTAL OPERATING REVENUES	<u>2,291,187</u>
OPERATING EXPENSES	
Contracted Services	552,969
Other Expenses	194,711
Depreciation	<u>769,286</u>
TOTAL OPERATING EXPENSES	<u>1,516,966</u>
Operating Income	<u>774,221</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Expense	(704,211)
Interest Income	<u>3,035</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(701,176)</u>
Income Before Transfers and Capital Contributions	<u>73,045</u>
TRANSFERS AND CAPITAL CONTRIBUTIONS	
Transfer of Debt and Related Accruals from Governmental Activities	(24,321,211)
Capital Contributions from Governmental Activities	<u>23,792,482</u>
TOTAL TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(528,729)</u>
Decrease in Net Position	(455,684)
NET POSITION - BEGINNING	<u>-</u>
NET POSITION (DEFICIT) - ENDING	<u>\$ (455,684)</u>

The accompanying notes are an integral part of this statement.

South Dakota Ellsworth Development Authority
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2015

	<u>Waste Water Treatment Plant</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Receipts from Customers	\$ 1,982,562
Cash Payments to Vendors for Goods and Services	<u>(542,264)</u>
Net Cash Provided by Operating Activities	<u>1,440,298</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest Paid on Capital Debt	(913,890)
Principal Paid on Capital Debt	<u>(278,238)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,192,128)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	248,170
CASH AND CASH EQUIVALENTS - BEGINNING	<u>-</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 248,170</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 774,221
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	769,286
Change in Assets and Liabilities:	
Accounts Receivable	(308,625)
Prepaid Expenses	(2,091)
Accounts Payable	<u>207,507</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,440,298</u>
NONCASH CAPITAL AND FINANCING ACTIVITIES	
Principal and Interest Outstanding on Debt Transferred from the Governmental Activities	<u>\$ 24,321,211</u>
Book Value of Property Transferred from the Governmental Activities	<u>\$ 23,792,482</u>

The accompanying notes are an integral part of this statement.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

South Dakota Ellsworth Development Authority (the Authority) is a component unit of the State of South Dakota and is exempt from federal income taxes. The Authority was created under SDCL 1-16J for the purpose of protecting and promoting the economic impact of Ellsworth Air Force Base and associated industry, and to promote the health and safety of those living or working near the base.

In conformity with Governmental Accounting and Financial Reporting Standards, South Dakota Ellsworth Development Authority is the reporting entity for financial reporting purposes. The Authority is governed by a board of seven members that are appointed by the Governor of the State of South Dakota. The financial statements of the Authority include all funds that are controlled by the Board. The Board has the authority to exercise all powers and limitations set forth in SDCL 1-16J. The Authority does not have to prepare a budget that is subject to approval by the State of South Dakota, and the Authority can issue debt without the permission of the State of South Dakota.

B. Government-wide and Fund Financial Statements

Government-wide Statements: The Statement of Net Position and the Statement of Activities display various information about the Authority. These statements include the financial activities of the overall organization. Governmental activities are generally financed through grants, debt proceeds and other non-exchange transactions. Business-type Activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Authority and for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund financial statements: The fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenue, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

A fund is considered major if it is in the primary operating funds of the Authority or it meets the following criteria:

1. Total assets, deferred outflows of resources, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, deferred outflows of resources, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

The funds of the Authority and their respective fund types are described below:

Governmental Fund:

General Fund - The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. This is the only governmental fund of the Authority. This is a major fund.

Proprietary Fund:

Waste Water Treatment Plant Fund - Financed primarily by user charges. This fund accounts for the operation of the sanitary sewer system and related facilities, which became operational in July 2014. This is the only proprietary fund of the Authority. This is a major fund.

The Authority does not have fiduciary funds.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded in the financial statements. Basis of accounting refers to “when” revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fund Financial Statements: Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period (“availability period”). Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due. Proprietary funds apply the economic resources measurement focus and the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of 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.

E. Cash and Cash Equivalents

The Authority pools its cash resources for deposit purposes. The proprietary fund essentially has access to its cash resources on demand. Accordingly, all reported deposit balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows. The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Notes Receivable

Notes receivable are comprised of mortgage loans collateralized by the underlying real property pledged by the borrowers in accordance with the terms of the mortgage loans. The mortgage loans are carried at cost, which includes unpaid principal balances and an allowance for loan losses.

The Authority maintains an allowance for loan losses based on management’s estimate of credit losses inherent in the Authority’s loans receivable. The estimation of the allowance is based on a variety of factors including current economic conditions, delinquency trends, and the physical inspections of properties. No allowance has been recorded at June 30, 2015, as all loans were considered collectible.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Contract for Deed

The contract for deed resulted from a sale of property that occurred in fiscal year 2015. The contract for deed is carried at cost, which includes the unpaid principal balance and any accrued interest. As of June 30, 2015, the contract for deed was considered collectible; therefore, an allowance was not established.

H. Capital Credits

The Authority earns capital credits from a rural utility cooperative. The cooperative calculates the amount of capital credits earned by the Authority based on utility usage. Annually, the cooperatives determine an amount of capital credits to be distributed to the Authority from the Authority's accumulation of capital credits from past years. The timeline of distribution of capital credits is unknown. The Authority records the accumulation of capital credits at cost as reported by the cooperative.

I. Assets Held for Development

Assets held for development are recorded at cost, which includes the initial purchase of the property and any improvements to the property. Donated development assets are valued at their estimated fair value on the date donated. Assets are categorized as held for development if the Authority does not intend to maintain the assets in the long-term, and the assets are not used in the fulfillment of the organization's mission. All assets that are classified as held for development are intended to be sold once development is complete. Losses on assets held for development are recognized when it is determined that impairment has incurred. Assets held for development are recognized in the fund upon acquisition, as they are acquired for use by the Authority.

J. Capital Assets

Capital assets include land and easements, equipment, plant and plant improvements, and all other tangible or intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period. Interest costs incurred during construction of capital assets are not capitalized.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government wide statements, capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Capital asset acquisitions in excess of \$1,000 and having a useful life of more than one year are capitalized at cost and updated for additions and retirements during the year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are reviewed at least annually for impairment and reduced by an impairment loss when the market value, based on appraisals obtained, is less than the carrying value.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on the proprietary fund's Statement of Net Position.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All reported capital assets except land, easements and construction in progress are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Plant and Plant Improvements	20-40 years
Equipment	3-15 years

Land and easements are inexhaustible assets and are not depreciated.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

K. Long-term Liabilities

Long-term liabilities are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of notes and bonds payable. In the governmental fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Debt obligations that are due in one year and are expected to be paid with current resources, and short-term obligations that are associated with assets held for development are reported as liabilities in the fund. In the proprietary fund statements, debt is accounted for on the accrual basis, the same as in the government-wide statements.

L. Unearned Revenue

At June 30, 2015, unearned revenues include easement monitoring fees to be recognized over a period of 20 years (see Note 4) and funding received in advance of being earned by the Authority.

M. Deferred Inflows of Resources

Deferred inflows of resources are those items where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. At June 30, 2015, deferred inflows of resources represent contributed development assets which are not expected to be sold soon enough to pay liabilities of the current period.

N. Program Revenues

Program revenues derive directly from the program itself. Program revenues are classified into categories as follows:

- a. Charges for services - These arise from charge to customers, applicants, or others who purchase, use, or directly benefits from the goods, services, or privileges provided, or are otherwise directly affected by the services.
- b. Operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are to be used for operations of the Authority.
- c. Capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in the operations of the Authority.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Proprietary Fund Revenue and Expense Classifications

In the proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

P. Net Position, Fund Balance, and Use of Restricted Resources

Net Position – Governmental and Business-type Activities and Proprietary Fund

Net Position represents the difference between assets and liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted Net Position represent all other net position not meeting the previously described definitions of “restricted” or “net investment in capital assets.”

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

Fund Balance

Governmental fund equity is classified as fund balance, which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact, net of related liabilities.

Restricted - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by resolutions of the Board of Directors.

Assigned - Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Represents general fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned amounts are available for use, it is the Authority’s policy to use committed resources first, followed by assigned and then unassigned resources, as they are needed.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 2 - CASH AND INVESTMENTS

Statutes impose various restrictions on deposits and investments. The Authority maintains all funds in checking and savings accounts at June 30, 2015 and has no investments. Those restrictions are summarized below:

Deposits - The Authority's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of eligible pledging securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Custodial Credit Risk - Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2015, the Authority's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

Concentration of Credit Risk - The Authority places no limit on the amount that may be deposited with any one financial institution or the amount that may be invested in any one issuer.

Interest Rate Risk - The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits eligible investments for the Authority, as discussed above. The Authority has no investment policy that would further limit its investment choices.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable, at June 30, 2015 in the governmental fund and governmental activities consists of amounts due from unrelated parties for leasing various parcels of land of the Authority.

For the proprietary fund and business-type activities, accounts receivable at June 30, 2015 consist of usage charges and reimbursement for operations due from the United States Air Force and the City of Box Elder for the waste water treatment plant. The United State Air Force and City of Box Elder also are charged monthly for future debt obligations related to the construction of the waste water treatment plant, which is included in charges for services.

NOTE 4 - ASSETS HELD FOR DEVELOPMENT

Assets held for development include several parcels of land that were donated to the Authority by the United States Air Force. The value of these properties was determined based on recent land sales in the area at a per acre value. The total value of land held by the Authority at June 30, 2015 was \$4,420,770. Revenue has not been recognized in the fund financial statements related to these donations, as the sales of the properties are not expected to be completed in time to provide current financial resources to the Authority. Since the resources are not available, the donations have been included in deferred inflows of resources in the fund financial statements.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 4 - ASSETS HELD FOR DEVELOPMENT (CONTINUED)

Assets held for development also included an acreage (Freedom Estates) that has been subdivided for housing and commercial development. This acreage was sold during the year ended June 30, 2015 under contract for deed as discussed in Note 6. Freedom Estates also includes land valued at \$557,550 which will be sold as part of future residential and commercial development of the property.

NOTE 5 - NOTES RECEIVABLE

Notes receivable consist of second mortgages on nine low-income homes that were constructed and sold in the Freedom Estates Development (see Note 4). These homes were restricted by funding sources for sale to low-income individuals. Not all of the purchasers qualified for financing for the entire \$125,000 purchase price of each home so the Authority has obtained a second mortgage on each property in the amount of \$25,000. The notes are not expected to be repaid until the properties are sold or refinanced by the original purchasers. The mortgages are at zero percent interest and have no set payment terms. Payment is triggered upon (1) the sale, foreclosure, abandonment, or transfer of the property, (2) relinquishment, assignment or rental to any other person or entity, or (3) the borrower's death. One note was repaid during the year as the result of the home being sold.

At June 30, 2015, notes receivable still outstanding totaled \$225,000 and were represented by mortgages with nine borrowers. Since these long-term notes are not available, they are presented as a component of nonspendable fund balance within the General Fund.

NOTE 6 - CONTRACT FOR DEED

As discussed in Note 4, this contract for deed resulted from the sale of the Freedom Estates Phase II. The outstanding balance of the contract for deed at June 30, 2015 was \$110,000. A principal payment of \$14,000 in addition to 4% interest on the outstanding balance is due August 2015. The remaining principal will be paid in \$24,000 annual installments due in August of each year beginning in 2016 until maturity in August 2019. Interest will also be due when principal is paid at 4% of the outstanding balance.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Governmental Activities					
Nondepreciable Capital Assets:					
Construction in Progress	\$ 23,466,230	\$ 1,657,232	\$ (1,330,980)	\$ (23,792,482)	\$ -
Land & Easements	381,203	1,709,350	(1,522,339)	-	568,214
Total Nondepreciable Assets	<u>23,847,433</u>	<u>3,366,582</u>	<u>(2,853,319)</u>	<u>(23,792,482)</u>	<u>568,214</u>
Capital Assets Being Depreciated:					
Equipment	3,956	-	-	-	3,956
Total Depreciable Capital Assets	<u>3,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,956</u>
Less Accumulated Depreciation					
Equipment	3,516	440	-	-	3,956
Total Accumulated Depreciation	<u>3,516</u>	<u>440</u>	<u>-</u>	<u>-</u>	<u>3,956</u>
Depreciable Capital Assets, Net	<u>440</u>	<u>(440)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, Net	<u>\$ 23,847,873</u>	<u>\$ 3,366,142</u>	<u>\$ (2,853,319)</u>	<u>\$ (23,792,482)</u>	<u>\$ 568,214</u>

Depreciation in the amount of \$440 was charged to the compatible use function of the governmental activities.

	Balance June 30, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Business-type Activities					
Capital Assets Being Depreciated:					
Buildings	\$ -	\$ -	\$ -	\$ 16,871,701	\$ 16,871,701
Improvements	-	-	-	6,920,781	6,920,781
Total Depreciable Capital Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,792,482</u>	<u>23,792,482</u>
Less Accumulated Depreciation					
Buildings	-	515,524	-	-	515,524
Improvements	-	253,762	-	-	253,762
Total Accumulated Depreciation	<u>-</u>	<u>769,286</u>	<u>-</u>	<u>-</u>	<u>769,286</u>
Depreciable Capital Assets, Net	<u>-</u>	<u>(769,286)</u>	<u>-</u>	<u>23,792,482</u>	<u>23,023,196</u>
Total Capital Assets, Net	<u>\$ -</u>	<u>\$ (769,286)</u>	<u>\$ -</u>	<u>\$ 23,792,482</u>	<u>\$ 23,023,196</u>

Depreciation in the amount of \$769,286 was charged to the waste water treatment plant proprietary fund.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 7 - CAPITAL ASSETS (CONTINUED)

During the year ended June 30, 2015, the Authority substantially completed construction on the waste water treatment plant and the related interceptor line. The water line was completed during the year ended June 30, 2015 for a total cost of \$1,330,980, and was donated to the City of Box Elder, as discussed in Note 11. Total costs incurred on the plant and interceptor were \$16,871,701 and \$6,920,781, respectively, as of June 30, 2015.

The Authority also has signed a construction contract to remove sediment from the bottom of the lagoons owned by the City of Box Elder. Construction has not begun as of the date of this report and costs are estimated at \$150,000, which will be paid with future bond proceeds.

The waste water treatment plant is on land that will be leased from the City of Box Elder. As of the date of this report, the property lease and overhead cost payment are still being negotiated with the City of Box Elder.

Land and easements include land or easements owned and monitored by the Authority in order for the land use to remain consistent with the needs of Ellsworth Air Force Base. The land and easements are recorded at the lower of cost or appraised value and are not depreciated. Land purchased by the Authority under the Readiness and Environmental Protection Integration Program (REPI) has easements sold to the United States Air Force at the Yellowbook appraised value of each property. The Authority is providing 25 percent matching funds for the REPI program. Properties purchased under the REPI program are deemed to have little or no value, and are adjusted to \$1 at the time the easement is granted to the Air Force. Other easements purchased outside the REPI program are being used as the match for the program and have also been adjusted to \$1, as there is little to no value for the land. One easement being used to match the REPI program was adjusted to \$187,001 based on the assessed easement value, and a portion of this easement was sold subsequent to year end as discussed in Note 17. During the year ended June 30, 2015, the Air Force awarded the Authority an additional \$2 million and the State of South Dakota awarded \$3 million in matching funds for the REPI program. Not all of the REPI program funds were expended by June 30, 2015 and unexpended amounts are included in unearned revenue.

During the year ended June 30, 2015, the waste water treatment plant was substantially completed and transferred to the waste water treatment plant proprietary fund to operate and charge user fees. The cost of the transferred plant and interceptor lines was \$23,792,482 and is reported as a capital contribution on the Statement of Activities and Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 8 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2015:

	Balance June 30, 2014	Increase	Decrease	Transfers	Balance June 30, 2015	Amounts Due Within 1 Year
Governmental Activities:						
NSP Loan	\$ 1,620,500	\$ -	\$ -	\$ -	\$ 1,620,500	\$ -
Bonds:						
SRF Series 2012A: Box Elder	6,536,517	1,334,521	-	(7,871,038)	-	-
SRF Series 2012B: USAF	6,536,517	1,334,521	-	(7,871,038)	-	-
SRF Series 2013D: USAF	571,608	155,656	-	(727,264)	-	-
SRF Series 2013C: Box Elder	571,608	114,550	-	(686,158)	-	-
SRF Series 2013B: Int. USAF	3,685,042	1,423,958	-	(5,109,000)	-	-
SRF Series 2013A: Int. Box Elder	1,228,347	474,653	-	(1,703,000)	-	-
Total Governmental Activities	<u>20,750,139</u>	<u>4,837,859</u>	<u>-</u>	<u>(23,967,498)</u>	<u>1,620,500</u>	<u>-</u>
Business-type Activities:						
Bonds:						
SRF Series 2012A: Box Elder	-	-	(139,119)	7,871,038	7,731,919	296,533
SRF Series 2012B: USAF	-	-	(139,119)	7,871,038	7,731,919	296,533
SRF Series 2013D: USAF	-	-	-	727,264	727,264	28,745
SRF Series 2013C: Box Elder	-	-	-	686,158	686,158	28,745
SRF Series 2013B: Int. USAF	-	-	-	5,109,000	5,109,000	189,480
SRF Series 2013A: Int. Box Elder	-	-	-	1,703,000	1,703,000	63,160
Total Business-type Activities	<u>-</u>	<u>-</u>	<u>(278,238)</u>	<u>23,967,498</u>	<u>23,689,260</u>	<u>903,195</u>
Total Long-term Liabilities	<u>\$ 20,750,139</u>	<u>\$ 4,837,859</u>	<u>\$ (278,238)</u>	<u>\$ -</u>	<u>\$ 25,309,760</u>	<u>\$ 903,195</u>

During the year ended June 30, 2015, the waste water treatment plant was substantially completed. As a result, the governmental activities transferred \$23,967,498 of outstanding principal on debt related to the construction of the waste water treatment and the resulting accrued interest of \$353,712 to the business-type activities. The waste water treatment plant began charging user fees and negotiated amounts to be collected from the United States Air Force and the City of Box Elder to be used for principal payments on the debt. The capital assets associated with the debt were also transferred from the governmental activities to the business-type activities, as discussed in Note 7. The transfer of debt is reported on the Statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

Outstanding debt obligations at June 30, 2015 are comprised of the following individual issues:

Governmental Activities:

NSP Loan, payable to SDHDA, non interest bearing, will be forgiven in 2033 if restrictive covenants related to providing low income housing on Freedom Estates homes is maintained for the 20 year duration. Secured by Freedom Estates (Note 4).

\$ 1,620,500

Total Governmental Activities

\$ 1,620,500

Business-type Activities:

SRF Series 2012A - Box Elder, bonds requiring quarterly payments of \$131,294 that began May 15, 2015 until maturity on November 15, 2034. Payments include interest at 2.5% and an administrative fee of .5%. Debt payments will be paid with pledged user fees from operating the plant.

7,731,919

SRF Series 2012B - USAF, bonds requiring quarterly payments of \$131,294 that began May 15, 2015 until maturity on November 15, 2034. Payments include interest at 2.5% and an administrative fee of .5%. Debt payments will be paid with pledged user fees from operating the plant.

7,731,919

Consolidated Water Facilities Construction Program Loan Series 2013C - Box Elder, bearing interest at 3%. Proceeds of up to \$734,500 can be advanced for the construction of a water main associated with the construction of the waste water treatment plant. Loan payments commence November 1, 2015 and are to be paid semi-annually until the balance is paid in full, or 10 years from the loan amortization date (November 2025). Debt payments will be paid with pledged user fees from operating the plant.

686,158

Consolidated Water Facilities Construction Program Loan Series 2013D - USAF, bearing interest at 3%. Proceeds of up to \$734,500 can be advanced for the construction of a water main associated with the construction of the waste water treatment plant. Loan payments commence November 1, 2015 and are to be paid semi-annually until the balance is paid in full, or 10 years from the loan amortization date (November 2025). Debt payments will be paid with pledged user fees from operating the plant.

727,264

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

SRF Series 2013B - USAF, bonds requiring quarterly payments of \$85,158 beginning August 15, 2015 until maturity on May 15, 2035. Payments include interest at 2.5% and an administrative fee of .5%. Debt payments will be paid with pledged user fees from operating the plant. 5,109,000

SRF Series 2013A - Box Elder, bonds requiring quarterly payments of \$28,386 beginning August 15, 2015 until maturity on May 15, 2035. Payments include interest at 2.5% and an administrative fee of .5%. Debt payments will be paid with pledged user fees from operating the plant. 1,703,000

Total Business-type Activities \$ 23,689,260

The annual debt service requirements to maturity for all debt outstanding are as follows:

Governmental Activities:

Years Ending June 30,	Principal	Interest	Total
2033	<u>\$ 1,620,500</u>	<u>\$ -</u>	<u>\$ 1,620,500</u>

Business-type Activities:

Years Ending June 30,	Principal	Interest	Total
2016	\$ 903,195	\$ 695,278	\$ 1,598,473
2017	925,133	673,340	1,598,473
2018	953,205	645,267	1,598,472
2019	982,129	616,344	1,598,473
2020	1,011,930	586,542	1,598,472
2021-2025	5,539,299	2,453,063	7,992,362
2026-2030	6,432,286	1,560,077	7,992,363
2031-2035	<u>6,942,083</u>	<u>525,104</u>	<u>7,467,187</u>
	<u>\$ 23,689,260</u>	<u>\$ 7,755,015</u>	<u>\$ 31,444,275</u>

The SRF debt agreements require the Authority to maintain a rate covenant of net revenues available for debt service of at least 110% of debt service requirements as discussed in Note 9.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 9 - PLEDGE OF FUTURE REVENUE

As discussed in Note 8, the Authority has pledged future user charges related to the waste water treatment plant fund. The pledged user charges provide security under various bond agreements. Proceeds from the loans provided financing for the construction of the waste water treatment plant. One hundred percent of the user charges related to the waste water treatment plant fund have been pledged through the maturity dates of each application bond as listed in Note 8. The total principal and interest remaining to be paid on the bonds, which represents the approximate amount of each pledge, along with a comparison of the pledged revenue recognized during the year to the principal and interest requirements is as follows:

Principal and Interest Remaining	\$	31,444,275
Pledged Revenue Recognized		2,291,187
Principal and Interest Requirements		982,449

NOTE 10 - WASTE WATER TREATMENT PLANT FUND CHARGES FOR SERVICES

Customers of the waste water treatment plant fund have negotiated user rates with the Authority and are charged for usage of the treatment plant. Additionally, customers are responsible for their respective share of the operating costs of the treatment plant and up to 20% of the operating costs to cover administrative and overhead costs of the Authority. Customers are also charged for the debt and interest payments related to the treatment plant. The debt and total interest related to the waste water treatment plant is amortized over the next 20 years and divided into equal monthly payments. The amount of the debt payments allocated to each customer is based on the customer's predetermined usage of capital assets for which the debt was acquired.

NOTE 11 - DONATION OF PROPERTY TO OTHER GOVERNMENTS

Beginning in fiscal year 2014, the Authority began construction of the water line, in addition to the waste water treatment plant and related interceptor line, with the intent of donating the water lines to the City of Box Elder upon completion. During the year ended June 30, 2015, the Authority completed the water line and donated it to the City of Box Elder. The cost of the donated water line was \$1,330,980 and is reported as donation of property to other government in the Statement of Activities. The City of Box Elder is responsible for the operation and maintenance of the water line. However, the debt used to construct the water line will be retained by the Authority, which is discussed in Note 8.

NOTE 12 - RISK MANAGEMENT

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 13 - CONCENTRATIONS

All charges for services reported in the waste water treatment plant fund are generated from two customers: the United States Air Force (52%) and the City of Box Elder (48%). Accounts receivable for the waste water treatment plant fund were also comprised of balances from the United States Air Force (36%) and the City of Box Elder (64%). Operations of the waste water treatment plant fund would be significantly impacted if either customer were to cease to exist or if receivables became uncollectible.

NOTE 14 - BUDGETARY INFORMATION

There is no legal requirement for a General Fund budget.

South Dakota Ellsworth Development Authority
Notes to Financial Statements
June 30, 2015

NOTE 15 - TRANSFERS

As discussed in Notes 7 and 8, the governmental activities constructed and held the related debt for the waste water treatment plant. When construction was completed during the year ended June 30, 2015 the capital assets, debt, and interest payable were transferred to the business-type activities. The related transfers are reported at net value in the Statement of Activities and are comprised of the following:

Capital Contributions from the Governmental Activities	\$	23,792,481
Less: Debt and Related Accruals from Governmental Activities		<u>24,321,210</u>
Net Transfer to the Business-type Activities	\$	<u>(528,729)</u>

NOTE 16 - CONTRACTS

The Authority has a contract with an unrelated third party to operate and maintain the waste water treatment plant. The contract is effective from July 2014 through July 2019. The contract may be terminated at any time with 90 days written notice. The Authority pays the contractor each month based on hourly rates of the individuals working and reimbursement of actual costs incurred for certain expenses. The expenses incurred under this contract for the year ended June 30, 2015 were \$455,441.

NOTE 17 - SUBSEQUENT EVENTS

In July 2015, the Authority purchased additional real estate to further their mission of providing compatible use for land surrounding Ellsworth Air Force Base for a purchase price of \$710,000

Another purchase of real estate was made in August 2015 for a purchase price of \$785,000 also for compatible use for land surrounding Ellsworth Air Force Base.

Both of the previously mentioned purchases will be funded using REPI funding for land easements as discussed in Note 7. The Authority also received an additional \$2 million in REPI funding subsequent to year end to fund the previously mentioned purchases as well as to provide funding for future purchases in the REPI program.

The Authority also sold a portion of its land under the REPI program (Note 7) in September 2015. The land was sold for \$155,000 and resulted in no gain or loss on the sale.

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

SUPPLEMENTARY INFORMATION

**South Dakota Ellsworth Development Authority
 Schedule of Operations Expenses
 For the Year Ended June 30, 2015**

	General Fund	Adjustments	Statement of Activities
Operations Expense			
Contracted Services	\$ 288,634	\$ -	\$ 288,634
Professional Fees	160,085	-	160,085
Development Costs	60,987	-	60,987
Contract Operation Expenses	11,102	-	11,102
Travel	13,525	-	13,525
Depreciation	-	440	440
	\$ 534,333	\$ 440	\$ 534,773

OTHER REPORTS



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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*

Board of Directors
South Dakota Ellsworth Development Authority
Rapid City, South Dakota

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 governmental activities and each major fund of the **South Dakota Ellsworth Development Authority** (the Authority) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 19, 2015.

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 Authority'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*.

Board of Directors
South Dakota Ellsworth Development Authority

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 Authority'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 Authority'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.



KETEL THORSTENSON, LLP
Certified Public Accountants

November 19, 2015



Ketel Thorstenson, LLP

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
South Dakota Ellsworth Development Authority
Rapid City, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the compliance of the South Dakota Ellsworth Development Authority (the Authority) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2015. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

November 19, 2015

SINGLE AUDIT SECTION

SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

A. Summary of Audit Results

1. The independent auditor's report expresses an unmodified opinion on the financial statements of the Authority.
2. No findings relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.
4. No findings relating to the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133.
5. The independent auditor's report on compliance for the major federal award program for the Authority expresses an unmodified opinion.
6. There were no audit findings relative to the major federal award programs..
7. The program tested as a major program was: Capitalization Grants for Clean Water State Revolving Funds CFDA# 66.458.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Department was not considered a low risk auditee under the criteria established in OMB Circular A-133.

B. Findings – Financial Statement Audit

None

C. Findings and Questioned Costs -- Major Federal Award Programs Audit

None

Status of Prior Audit Findings

The prior year finding regarding significant audit adjustments made that materially impacted federal expenditures reported on the Schedule of Expenditures of Federal Awards was not repeated in the current year.

**South Dakota Ellsworth Development Authority
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Numbers</u>	<u>Amount</u>
ENVIRONMENTAL PROTECTION AGENCY		
Pass-Through the S.D. Department of Environment and Resources:		
Capitalization Grants for Clean Water State Revolving Funds (Note 2)	66.458	\$ <u>1,792,880</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ <u>1,792,880</u>

NOTE 1: This schedule of expenditures of federal awards includes the federal award activity of South Dakota Ellsworth Development Authority and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, the amount presented in this schedule differs from amounts presented in, or used in preparation of, the basic financial statements.

NOTE 2: Amounts represent the federal portion of loan draw-downs for expenditures related to fiscal year 2015. There are no continuing compliance requirements related to the federal loans.