

South Dakota

EDFA

Economic Development
Finance Authority

June 30, 2014 Annual
Financial Report



ready to work

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT
SOUTH DAKOTA

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www.SDReadyToWork.com

Loan Portfolio

Economic Development Finance Authority Activity Loans Approved Fiscal Year 2014

APEX Fund

COMPANY	APEX FUND PROJECTED JOBS	TOTAL LOAN AMOUNT	PROJECT AMOUNT	COMMUNITY
Donnerite SD	63	\$175,000.00	\$800,000.00	Howard
Larson Data Communications	7	\$155,250.00	\$345,000.00	Mitchell
FY 2014 Total: 2 loans		70	\$330,250.00	\$1,145,000.00

EDFA Bonds

COMPANY	BOND FUND PROJECTED JOBS	TOTAL LOAN AMOUNT	PROJECT AMOUNT	COMMUNITY
N/A				
FY 2014 Total: 0 loans				

Economic Development Finance Authority Members

Terry Nelson is most recently retired as First Vice President of RBC Wealth Management in Rapid City. Mr. Nelson is a Certified Financial Planner (CFP) and Financial Consultant. He graduated from South Dakota State University with a Bachelor of Science in Psychology and Economics and later a Master of Science in Counseling. 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 a 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 helps 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 is also a graduate of the Graduate School of Banking in Boulder, CO. Mr. Derflinger has been in banking since 1983, and has been with First Interstate Bank since 1990. He is currently the Southern Hills Market Manager and oversees 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. Mr. Keller was the president and co-owner of Oddjobs.com and 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. Mr. Keller retired June 15, 2014 from being Dean of the USD Business Schools, the Beacom School of Business.

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 in economics. From there he was a Claims Analyst with the State of South Dakota Petroleum Release Compensation Fund for five 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.

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY**

AUDIT REPORT

Fiscal Year Ended June 30, 2014



**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 business-type activities of the South Dakota Economic Development Finance Authority, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the South Dakota Economic Development Finance Authority's basic financial statements, and have issued our report thereon dated September 30, 2014.

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 South Dakota Economic Development Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

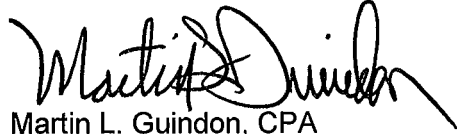
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

September 30, 2014

ECONOMIC DEVELOPMENT FINANCE AUTHORITY

PRIOR AUDIT FINDING AND RECOMMENDATION

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.

Auditee's Corrective Action Plan:

The recommendation was implemented.



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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, 2014, 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, 2014, 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 6-7 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 2014 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 September 30, 2014 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, 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 South Dakota Economic Development Finance Authority's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

September 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Economic Development Finance Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2014. 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, 2014

- Total assets of the Authority increased \$5,186,540 (or 16.45%) primarily due to the increase in loans receivable for the year ending June 30, 2014.
- Total liabilities of the Authority increased by \$5,277,512 (or 23.27%) primarily due to the increase in bonds payable for the year ending June 30, 2014.
- A \$10,000,000 bond issuance and the early redemption of \$2,330,000 of bonds occurred in the year ending June 30, 2014.

Changes in Assets and Liabilities

	FY 2013 (restated)	FY 2014	Increase (Decrease)	% Increase (Decrease)
Assets:				
Cash and Cash Equivalents	\$ 2,104,366	\$ 2,555,029	\$ 450,663	21.42%
Investments	9,411,222	8,076,507	(1,334,715)	(14.18)
Loans Receivable	20,370,747	26,531,649	6,160,902	30.24
Allowance for Uncollectible Loans	(363,724)	(453,684)	(89,960)	(24.73)
Accounts Receivable	9,400	9,050	(350)	(3.72)
Total Assets	31,532,011	36,718,551	5,186,540	16.45
Liabilities:				
Amounts Held in Custody for Others	119,043	68,411	(50,632)	(42.53)
Bonds Payable	1,035,000	4,975,000	3,940,000	380.68
Accrued Interest Payable	288,523	359,212	70,689	24.50
Other	2,643,568	850,960	(1,792,608)	(67.81)
Loan Escrow Payable	1,086,175	1,636,238	550,063	50.64
Noncurrent Bonds Payable	17,505,000	20,065,000	2,560,000	14.62
Total Liabilities	22,677,309	27,954,821	5,277,512	23.27
Restricted Net Position	5,000,000	5,000,000	0	0.00
Unrestricted Net Position (Restated)	3,854,702	3,763,730	(90,972)	(2.36)
Total Net Position	\$ 8,854,702	\$ 8,763,730	\$ (90,972)	(1.03)%

Change in Net Position

	<u>FY 2013</u>	<u>FY 2014</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Revenues:				
Interest Income on Loans	\$ 1,195,579	\$ 1,391,302	\$ 195,723	16.37%
Investment Income	44,206	54,470	10,264	23.22
Total Revenues	<u>1,239,785</u>	<u>1,445,772</u>	<u>205,987</u>	<u>16.61</u>
Expenses:				
Interest Expense	1,145,612	1,327,611	181,999	15.89
Contractual Services	69,238	77,787	8,549	12.35
Bad Debt Expense	0	131,346	131,346	NA
Total Expenses	<u>1,214,850</u>	<u>1,536,744</u>	<u>321,894</u>	<u>26.50</u>
Change in Net Position	<u>\$ 24,935</u>	<u>\$ (90,972)</u>	<u>\$ (115,907)</u>	<u>(464.84)%</u>

- The related increases to the balances in loans receivable and debt outstanding resulted in the associated increases to interest income on loans, investment income, and interest expense.
- Bad Debt increased by \$131,346 primarily due to the increase in allowance associated with the increase in loans receivable in fiscal year 2014.

Debt Administration:

- The Authority issued a total of \$10,000,000 in tax-exempt bonds during fiscal year 2014.
- Outstanding bonds payable bear interest at rates ranging from 1.00% to 6.05% as of June 30, 2014. \$1,170,000 of regularly scheduled bonds was redeemed during fiscal year 2014. Additionally, \$2,330,000 of Series 2004B bonds was redeemed on April 1, 2014.
- The Authority's bonds are rated A+ by Standard and Poor's as of June 30, 2014.
- More detailed information about the Authority's debt can be found in Note 4, Long-Term Debt.

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

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF NET POSITION
June 30, 2014**

Assets

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 2,538,372
Restricted Cash & Cash Equivalents (Note 2)	16,657
Total Cash and Cash Equivalents	2,555,029

Investments (Note 2)	290,721
Restricted Investments (Note 2)	4,047,036
Investment Interest Receivable	12,147
Loan Interest Receivable	116,096
Loans Receivable (Note 3)	5,505,693
Accounts Receivable	9,050
Total Current Assets	12,535,772

Noncurrent Assets:

Investments (Note 2)	1,157,836
Loans Receivable (Net of Allowance for Loan Loss) (Note 3)	20,456,176
Restricted Investments (Note 2)	2,568,767
Total Noncurrent Assets	24,182,779

Total Assets

36,718,551

Liabilities

Current Liabilities:

Accounts Payable	20,567
Accrued Interest Payable	338,646
Due To Other Governments (Note 6)	461,787
Loan Escrow Payable	380,231
Bonds Payable (Note 4)	4,975,000
Amounts Held in Custody for Others	68,411
Total Current Liabilities	6,244,642

Noncurrent Liabilities:

Due to Other Governments (Note 6)	389,173
Loan Escrow Payable	1,256,006
Bonds Payable (Note 4)	20,065,000
Total Noncurrent Liabilities	21,710,179

Total Liabilities

27,954,821

Net Position

Restricted for Debt Service (Note 1)	5,000,000
Unrestricted	3,763,730
Total Net Position	8,763,730

Total Net Position

\$ 8,763,730

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

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014**

Operating Revenue:	
Interest Income on Loans	\$ 1,391,302
Total Operating Revenue	<u>1,391,302</u>
Operating Expenses:	
Contractual Services	77,787
Interest Expense	1,327,611
Bad Debt Expense	<u>131,346</u>
Total Operating Expenses	<u>1,536,744</u>
Operating Income (Loss)	(145,442)
Nonoperating Revenue:	
Investment Income	<u>54,470</u>
Total Nonoperating Revenue	<u>54,470</u>
Change in Net Position	(90,972)
Net Position at the Beginning of the Year (Restated)	<u>8,854,702</u>
Net Position at End of Year	<u><u>\$ 8,763,730</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, 2014**

Cash Flows from Operating Activities:

Receipts for Bond Repayments	\$ 4,866,669	
Receipts for Loan Repayments	652,594	
Payment to Note Recipients	(10,000,000)	
Payments to Loan Recipients	(330,250)	
Payments for Contractual Services	(71,859)	
Other Receipts	498,844	
	<u>498,844</u>	
Net Cash Used by Operating Activities		(4,384,002)

Cash Flows from Noncapital Financing Activities:

Proceeds from Revenue Bonds	10,000,000	
Proceeds from Loans	52,000	
Principal Paid on Revenue Bonds	(3,500,000)	
Interest Payments on Loans, Bonds and Notes	(1,262,499)	
Principal Paid on Loans to RD	(1,844,608)	
	<u>(1,844,608)</u>	
Net Cash Provided by Noncapital Financing Activities		3,444,893

Cash Flows from Investing Activities:

Proceeds from Sales and Maturities of Investment Securities	7,482,339	
Investment Income	61,025	
Purchase of Investment Securities	(6,153,592)	
	<u>(6,153,592)</u>	
Net Cash Provided by Investing Activities		<u>1,389,772</u>

Net Increase in Cash and Cash Equivalents During the Fiscal Year		450,663
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Cash and Cash Equivalents at Beginning of Year		<u>2,104,366</u>
Cash and Cash Equivalents at End of Year		<u>\$ 2,555,029</u>

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

Operating Income (Loss)	\$	(145,442)
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**Adjustments to Reconcile Operating Income
to Net Cash Provided by Operating Activities**

Interest Expense	1,327,611	
Bad Debt Expense	131,346	

Decrease/(Increase) in Assets:

Loan Interest Receivable	(24,970)	
Loans Receivable	(6,177,319)	
Accounts Receivable	350	

Increase/(Decrease) in Liabilities:

Accounts Payable	5,577	
Loan Escrow Payable	549,476	
Amounts Held for Others	(50,631)	
Total Adjustments		<u>(4,238,560)</u>
Net Cash Used by Operating Activities		<u>\$ (4,384,002)</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, 2014**

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. In accordance with GASB standards, because the State of South Dakota is able to impose its will over the Authority and because the Authority does not meet any of GASB's criteria for blending, the Authority is reported as a discretely presented 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, 2014, 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 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, 2014, the aggregate amount of stand-alone bond principal outstanding was \$24,797,465. The original issue amount of stand-alone bonds totaled \$38,870,000.

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.

M. Accounting Restatement

GASB Statement 65 requires that bond issuance costs be reported as expenses of the period rather than amortized over the life of the associated bond issuance. The amount reported as net position at the beginning of the year was decreased by \$45,313 for amortization of bond issuance costs associated with prior years.

2. CASH AND INVESTMENTS

Under the terms of the General Bond resolution of the 2004A, 2004B, 2005A, 2008, 2009A&B, and 2013A 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, 2009A&B, and 2013A 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	\$ 3,986,929
Restricted Cash and Investments – Capital Reserve Account and Loan Reserve Accounts	<u>6,632,460</u>
Total Cash and Investments	<u>\$ 10,619,389</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 \$41,006 and investment securities totaling \$2,555,029 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, 2014, 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. Government Agencies*	\$ 41,006	\$ 41,006	\$ 0
Certificates of Deposit	8,023,354	4,296,751	3,726,603
Total	<u>\$ 8,064,360</u>	<u>\$ 4,337,757</u>	<u>\$ 3,726,603</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, 2014, the Authority had the following investments, excluding those issued by or explicitly guaranteed by the U.S. Government or insured by FDIC, which are not considered to have credit risk.

<u>Moody's Rating</u>	<u>Fair Value</u>
AAA	\$ 41,006

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer.

The Authority policy for maximum portfolio exposure to permitted investments is as follows:

	<u>Restricted Account Portfolio Exposure</u>		<u>Unrestricted Account Portfolio Exposure</u>	
	<u>Total</u>	<u>Individual</u>	<u>Total</u>	<u>Individual</u>
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, 2014 consisted of the following:

Beginning Balance	\$ 20,279,619
New Pooled Loans	10,000,000
New Apex Program Loans	330,250
Pooled Loans Principal Payments	(3,567,500)
APEX Program Loan Principal Payments	(585,431)
Write off of GeoFurance - APEX	(41,385)
Loans Receivable – Before Allowance	<u>26,415,553</u>
Allowance for Loan Loss applicable to the Pooled Loan Program	(318,487)
to the APEX Loan Program	<u>(135,197)</u>
TOTAL LOANS RECEIVABLE – Net of Allowance	<u>\$ 25,961,869</u>

The Allowance for Loan Loss applicable to the Pooled Loans is 1% for the year ending June 30, 2014.

The Agricultural Processing and Export (APEX) Program was created in 1988 when loans (Note 6) from Rural Development (RD) and Revolving Economic Development and Initiative Fund were issued to the 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, 2014:

Beginning Balance	\$ 18,540,000
Bonds Issued	10,000,000
Bonds Retired	<u>(3,500,000)</u>
Ending Balance	<u>\$ 25,040,000</u>
Due Within One Year	<u>\$ 4,975,000</u>

The following are the revenue bonds outstanding for the pooled bond program at June 30, 2014:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity Through</u>	<u>Principal Balance</u>
Series 2004A Term Bonds	6.00%	2029	<u>\$ 3,820,000</u>
Series 2005A Serial Bonds	5.75%	2016	390,000
Term Bonds	6.05%	2026	<u>3,225,000</u>
			<u>3,615,000</u>
Series 2008 Serial Bonds	4.85%	2015	295,000
Term Bonds	5.875%	2028	<u>5,795,000</u>
			<u>6,090,000</u>
Series 2009A&B Serial Bonds	4.00-4.35%	2016	615,000
Term Bonds	5.00%	2019	<u>1,035,000</u>
			<u>1,650,000</u>
Series 2013A Serial Bonds	1.00-4.00%	2021	1,175,000
Term Bonds	1.625-5.80%	2033	<u>8,690,000</u>
			<u>9,865,000</u>
Total			<u>\$ 25,040,000</u>

The following is a schedule of future bond payments and future interest payments remaining at June 30, 2014:

Year Ended June 30	Principal	Interest	Total Principal and Interest
2015	\$ 4,975,000	\$ 1,221,010	\$ 6,196,010
2016	1,200,000	1,078,848	2,278,848
2017	1,255,000	1,029,339	2,284,339
2018	1,300,000	974,269	2,274,269
2019	1,360,000	914,475	2,274,475
2020-2024	5,815,000	3,672,498	9,487,498
2025-2029	6,210,000	1,816,630	8,026,630
2030-2033	2,925,000	436,160	3,361,160
Total	<u>\$ 25,040,000</u>	<u>\$ 11,143,229</u>	<u>\$ 36,183,229</u>

5. LOAN COMMITMENTS

At June 30, 2014, the Authority had the following loan commitments:

APEX Loans \$ 106,250

6. DUE TO'S

Due To's reported on the balance sheet consist of loans from 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	\$ 2,643,568
New Loans from RD	52,000
Payments to RD	<u>(1,844,608)</u>
TOTAL DUE TO'S	<u>\$ 850,960</u>

CFDA Number: 10.767
 Federal Agency: Rural Business & Cooperative Development Service
 Program: Intermediary Relending Program
 State Agency: Tourism & State Development
 Outstanding Loans: \$850,960

The Governor's Office of Economic Development, through the Authority, participates in the APEX Loan Program with funds obtained from the Rural Economic and Community Development (RECD) Intermediary Relending Program (IRP). The Authority has entered into loan agreements with the RECD in the amount of \$3,000,000. The Authority 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, 2014, the Authority had \$850,960 in outstanding loans from RD.

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.

8. Subsequent Event

On September 3, 2014, the Davis Family SODAK 2004A bonds were paid in full. The outstanding balance of the Series 2004A bonds at June 30, 2014, was \$3,820,000 of which \$3,820,000 was designated as current.