**SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2018

Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

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**SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY**

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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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***
Our responsibility is to express 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, 2018, 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.

Board of Directors
South Dakota Ellsworth Development Authority

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**Report on Required Supplementary Information**

Management has omitted management's discussion and analysis 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. 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 October 19, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

October 19, 2018

# South Dakota Ellsworth Development Authority
# Statement of Net Position
# June 30, 2018

| | Governmental Activities | Business-type Activities | Total Primary Government |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | $ 2,156,641 | $ 351,806 | $ 2,508,447 |
| Accounts Receivable | 1,250 | 457,232 | 458,482 |
| Long-term Notes Receivable, Net | 125,000 | - | 125,000 |
| Contract for Deed | 22,000 | - | 22,000 |
| Capital Credits | - | 25,951 | 25,951 |
| Assets Held for Development, Net | 3,854,714 | - | 3,854,714 |
| Land & Easements | 61 | - | 61 |
| Buildings | - | 17,199,375 | 17,199,375 |
| Improvements | - | 6,920,781 | 6,920,781 |
| Equipment | 3,424 | - | 3,424 |
| Accumulated Depreciation | (3,424) | (3,319,751) | (3,323,175) |
| **TOTAL ASSETS** | 6,159,666 | 21,635,394 | 27,795,060 |
| **LIABILITIES** | | | |
| Accounts Payable | 25,196 | 68,274 | 93,470 |
| Accrued Interest | - | 68,829 | 68,829 |
| Unearned Revenue | 2,181,571 | - | 2,181,571 |
| Long-term Debt: | | | |
| Due in One Year | - | 995,077 | 995,077 |
| Due in More than One Year | 1,620,500 | 20,232,470 | 21,852,970 |
| **TOTAL LIABILITIES** | 3,827,267 | 21,364,650 | 25,191,917 |
| **NET POSITION** | | | |
| Net Investment in Capital Assets | 61 | 238,445 | 238,506 |
| Unrestricted | 2,332,338 | 32,299 | 2,364,637 |
| **TOTAL NET POSITION** | $ 2,332,399 | $ 270,744 | $ 2,603,143 |

The accompanying notes are an integral part of this statement.

# South Dakota Ellsworth Development Authority
# Statement of Activities
# For the Year Ended June 30, 2018

| Functions/Programs | Expenses | Charges for Services |
|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | |
| Compatible Use and Development | $ 14,286,067 | $ 65,364 |
| Total Governmental Activities | 14,286,067 | 65,364 |
| **BUSINESS-TYPE ACTIVITIES** | | |
| Waste Water Treatment | 2,403,998 | 2,669,624 |
| Total Business-type Activities | 2,403,998 | 2,669,624 |
| Total Primary Government | $ 16,690,065 | $ 2,734,988 |

The accompanying notes are an integral part of this statement.

| Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---|---|---|---|
| | | Primary Government | | |
| Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| $ 309,000 | $ 11,428,805 | $ (2,482,898) | $ - | $ (2,482,898) |
| 309,000 | 11,428,805 | (2,482,898) | - | (2,482,898) |
| - | - | - | 265,626 | 265,626 |
| - | - | - | 265,626 | 265,626 |
| $ 309,000 | $ 11,428,805 | (2,482,898) | 265,626 | (2,217,272) |

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| **GENERAL REVENUES** | | | |
| Unrestricted Investment Earnings | 3,303 | 6,051 | 9,354 |
| Total General Revenues | 3,303 | 6,051 | 9,354 |
| **CHANGE IN NET POSITION** | (2,479,595) | 271,677 | (2,207,918) |
| **NET POSITION - BEGINNING** | 4,811,994 | (933) | 4,811,061 |
| **NET POSITION - ENDING** | $ 2,332,399 | $ 270,744 | $ 2,603,143 |

The accompanying notes are an integral part of this statement.

# South Dakota Ellsworth Development Authority
# Balance Sheet - General Fund
# June 30, 2018

| | General Fund |
|---|---|
| **ASSETS** | |
| Cash | $ 2,156,641 |
| Accounts Receivable | 1,250 |
| Long-term Notes Receivable, Net of Allowance | 125,000 |
| Contract for Deed | 22,000 |
| Assets Held for Development, Net | 3,854,714 |
| **TOTAL ASSETS** | $ 6,159,605 |
| **LIABILITIES** | |
| Accrued Expenses | $ 25,196 |
| Unearned Revenue | 2,181,571 |
| **TOTAL LIABILITIES** | 2,206,767 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Contributions Not "Available" | 3,306,729 |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | 3,306,729 |
| **FUND BALANCE** | |
| Nonspendable: | |
| Noncurrent Notes Receivable | 125,000 |
| Contract for Deed | 22,000 |
| Assets Held for Development, Net of Deferred Inflows of Resources | 547,985 |
| Unassigned | (48,876) |
| **TOTAL FUND BALANCE** | 646,109 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE** | $ 6,159,605 |

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 Net Position
# June 30, 2018

| | |
|---|---|
| Total Governmental Fund Balance | $ 646,109 |
| 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. | 61 |
| 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. | 3,306,729 |
| Long-term debt is not due and payable in the current period and therefore is not reported as a liability in the General Fund. | (1,620,500) |
| Net Position of Governmental Activities | $ 2,332,399 |

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, 2018

| | General Fund |
|---|---|
| **REVENUES** | |
| State Revenue: | |
| Operating Grants | $ 300,000 |
| Capital Grants | 7,328,805 |
| Local Revenue: | |
| Operating Contributions from Private Parties | 9,000 |
| Proceeds from Sales of Donated Properties | 1,114,041 |
| Loss on Sale of Donated Properties | (749,983) |
| Rentals | 65,364 |
| Earnings on Deposits | 3,303 |
| Total Revenues | 8,070,530 |
| **EXPENDITURES** | |
| Compatible Use and Economic Development | 747,136 |
| Capital Outlays | 8,337,511 |
| Total Expenditures | 9,084,647 |
| **CHANGE IN FUND BALANCES** | (1,014,117) |
| **FUND BALANCES - BEGINNING** | 1,660,226 |
| **FUND BALANCES - ENDING** | $ 646,109 |

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 Balances to the Statement of Activities
# For the Year Ended June 30, 2018

| | | |
|---|---|---|
| Total Governmental Fund Net Change in Fund Balances | $ | (1,014,117) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report deferred inflows of resources for non-cash assets donated. This is the amount of donated assets sold in the current year that were recognized in the governmental funds as revenues. | | (1,114,041) |
| In the Statement of Activities, donated land is reported as a revenue, but not in the governmental funds as the revenue is not available to fund current expenditures. | | 4,100,000 |
| Land donated to others is reported as an expense in the Statement of Activities but not the governmental funds as the donation does not represent an expenditure of current resources. | | (4,100,000) |
| Governmental funds report expenditures for capital assets purchased, while these purchases are reported as assets in the Government-wide statements. | | 8,337,511 |
| 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. | | (8,688,948) |
| Change in Net Position of Governmental Activities | $ | (2,479,595) |

The accompanying notes are an integral part of this statement.

## South Dakota Ellsworth Development Authority
## Statement of Net Position - Proprietary Fund
## June 30, 2018

| | Waste Water Treatment Plant |
|---|---|
| **ASSETS** | |
| Current Assets | |
| Cash | $ 351,806 |
| Accounts Receivable | 457,232 |
| Total Current Assets | 809,038 |
| Capital Assets | |
| Buildings | 17,199,375 |
| Improvements | 6,920,781 |
| Accumulated Depreciation | (3,319,751) |
| Total Capital Assets, Net of Accumulated Depreciation | 20,800,405 |
| Noncurrent Assets | |
| Capital Credits | 25,951 |
| **TOTAL ASSETS** | 21,635,394 |
| **LIABILITIES** | |
| Current Liabilities | |
| Accounts Payable | 68,274 |
| Accrued Interest | 68,829 |
| Current Maturities of Long-term Debt | 995,077 |
| Total Current Liabilities | 1,132,180 |
| Long-term Liabilities | 20,232,470 |
| **TOTAL LIABILITIES** | 21,364,650 |
| **NET POSITION** | |
| Net Investment in Capital Assets | 238,445 |
| Unrestricted | 32,299 |
| **TOTAL NET POSITION** | $ 270,744 |

The accompanying notes are an integral part of this statement.

# South Dakota Ellsworth Development Authority
# Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund
# For the Year Ended June 30, 2018

| | Waste Water Treatment Plant |
|---|---|
| **OPERATING REVENUES** | |
| Revenues Pledged to Service Long-term Debt: | |
| Charges for Services | $ 2,669,624 |
| **TOTAL OPERATING REVENUES** | 2,669,624 |
| **OPERATING EXPENSES** | |
| Contracted Services | 523,660 |
| Other Expenses | 378,656 |
| Depreciation | 850,160 |
| **TOTAL OPERATING EXPENSES** | 1,752,476 |
| Operating Income | 917,148 |
| **NONOPERATING REVENUES (EXPENSES)** | |
| Interest Expense | (651,522) |
| Interest Income | 6,051 |
| **TOTAL NONOPERATING REVENUES (EXPENSES)** | (645,471) |
| Increase in Net Position | 271,677 |
| **NET POSITION - BEGINNING** | (933) |
| **NET POSITION - ENDING** | $ 270,744 |

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, 2018

| | Waste Water Treatment Plant |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash Receipts from Customers | $ 2,483,334 |
| Cash Payments to Vendors for Goods and Services | (883,404) |
| Net Cash Provided by Operating Activities | 1,599,930 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Interest Paid on Capital Debt | (667,653) |
| Principal Paid on Capital Debt | (965,782) |
| Net Cash Used by Capital and Related Financing Activities | (1,633,435) |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | (33,505) |
| **CASH AND CASH EQUIVALENTS - BEGINNING** | 385,311 |
| **CASH AND CASH EQUIVALENTS - ENDING** | $ 351,806 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | |
| Operating Income | $ 917,148 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Depreciation Expense | 850,160 |
| Change in Assets and Liabilities: | |
| Accounts Receivable | (186,290) |
| Accounts Payable | 18,912 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $ 1,599,930 |

The accompanying notes are an integral part of this statement.

## 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 Financial 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, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and
2. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. This is the only proprietary fund of the Authority. This is a major fund.

The Authority does not have fiduciary funds.

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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Accounts Receivable

All receivables are reported at the amount management expects to collect from outstanding balances.

G. 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. As of June 30, 2018, an allowance of $25,000 was recorded related to management's assessment of loan collectability.

H. 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, 2018, the contract for deed was considered collectible; therefore, an allowance was not established.

I. 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.

J. 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 for future development. Losses on assets held for development are recognized when it is determined that impairment has incurred.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets include land and easements, equipment, building and building 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.

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:

| | |
|---|---|
| Building and Building 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.

L. 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.

M. Unearned Revenue

At June 30, 2018, unearned revenue includes funding received in advance of being earned by the Authority.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. 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, 2018, deferred inflows of resources represent contributed development assets which are not expected to be sold soon enough to pay liabilities of the current period.

O. 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 charges to customers, applicants, or others who purchase, use, or directly benefit 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.

P. 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.

Q. 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 represents 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*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 either imposed (a) externally by creditors, grantors, contributors, or laws or regulations of other governments, or (b) 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.

## 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, 2018 and has no investments. Those restrictions are summarized below:

<u>Deposits</u> - 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.

<u>Custodial Credit Risk - Deposits</u> - 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, 2018, the Authority's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities. The Authority's accounts are held in one bank and insured by the FDIC up to $250,000. Cash balances not insured by the FDIC as of June 30, 2018 were $2,277,536.

<u>Concentration of Credit Risk</u> - 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.

<u>Interest Rate Risk</u> - 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.

## NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

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, 2018 in the governmental fund and governmental activities generally consists of amounts due from unrelated parties for leasing various parcels of land of the Authority. There were $1,250 of outstanding balances as of June 30, 2018.

For the proprietary fund and business-type activities, accounts receivable at June 30, 2018 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 States Air Force and City of Box Elder also are charged monthly for debt obligations related to the financing of the waste water treatment plant, which is included in charges for services.

Accounts receivable at June 30, 2018 are considered fully collectible, as such, no allowance has been recorded.

## 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, 2018 was $3,306,729. 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. During the year ended June 30, 2018, portions of these donated parcels were sold resulting in the recognition of $1,114,041 of donation proceeds as revenue.

Assets held for development also included an acreage (Freedom Estates) that has been subdivided for housing and commercial development. A portion of 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 $547,985 which will be sold as part of future residential and commercial development of the property.

Net assets held for development are not available and are shown as a component of nonspendable fund balance within the General Fund.

## NOTE 5 - NOTES RECEIVABLE

Notes receivable consist of second mortgages on six 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 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.

At June 30, 2018, notes receivable outstanding, less an allowance of $25,000, totaled $125,000 and were represented by mortgages with six 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, 2018 was $22,000. Principal payments in addition to 4% interest on the outstanding balance are due as outlined in the table below. The remaining principal will be paid in annual installments due in August of each year until maturity in August 2019, unless the buyer sells additional lots, at which time the payment schedule will be revised. Since the contract for deed is not available, it is presented as a component of nonspendable fund balance within the General Fund.

| Year Ending June 30, | | |
|---|---|---|
| 2019 | $ | 22,000 |

## NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

| | Balance June 30, 2017 | Additions | Impairments/ Deletions | Balance June 30, 2018 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Nondepreciable Capital Assets: | | | | |
| Land and Easements | $ 351,498 | $ 8,337,511 | $ (8,688,948) | $ 61 |
| Total Nondepreciable Assets | 351,498 | 8,337,511 | (8,688,948) | 61 |
| Capital Assets Being Depreciated: | | | | |
| Equipment | 3,956 | - | (532) | 3,424 |
| Total Depreciable Capital Assets | 3,956 | - | (532) | 3,424 |
| Less Accumulated Depreciation: | | | | |
| Equipment | 3,956 | - | (532) | 3,424 |
| Total Accumulated Depreciation | 3,956 | - | (532) | 3,424 |
| Depreciable Capital Assets, Net | - | - | - | - |
| Total Capital Assets, Net | $ 351,498 | $ 8,337,511 | $ (8,688,948) | $ 61 |
| Business-type Activities: | | | | |
| Capital Assets Being Depreciated: | | | | |
| Buildings | $ 17,199,375 | $ - | $ - | $ 17,199,375 |
| Improvements | 6,920,781 | - | - | 6,920,781 |
| Total Depreciable Capital Assets | 24,120,156 | - | - | 24,120,156 |
| Less Accumulated Depreciation: | | | | |
| Buildings | 1,662,149 | 573,320 | - | 2,235,469 |
| Improvements | 807,442 | 276,840 | - | 1,084,282 |
| Total Accumulated Depreciation | 2,469,591 | 850,160 | - | 3,319,751 |
| Depreciable Capital Assets, Net | 21,650,565 | (850,160) | - | 20,800,405 |
| Total Capital Assets, Net | $ 21,650,565 | $ (850,160) | $ - | $ 20,800,405 |

Depreciation in the amount of $850,160 was charged to the waste water treatment plant proprietary fund.

### NOTE 7 - CAPITAL ASSETS (CONTINUED)

The waste water treatment plant is on land that is leased from the City of Box Elder for $1 each year. The lease expires in 2034.

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 or easement. During the year ended June 30, 2018, the Air Force awarded the Authority an additional $5.8 million for the REPI program. Not all of the REPI program funds were expended by June 30, 2018 and unexpended amounts are included in unearned revenue.

### NOTE 8 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

| | Balance June 30, 2017 | Increase | Decrease | Balance June 30, 2018 | Amounts Due Within 1 Year |
|---|---|---|---|---|---|
| Governmental Activities: | | | | | |
| NSP Loan | $ 1,620,500 | $ - | $ - | $ 1,620,500 | $ - |
| Total Governmental Activities | 1,620,500 | - | - | 1,620,500 | - |
| Business-type Activities: | | | | | |
| Bonds: | | | | | |
| SRF Series 2012A: Box Elder | 7,253,361 | - | (320,252) | 6,933,109 | 329,968 |
| SRF Series 2012B: USAF | 7,253,361 | - | (320,252) | 6,933,109 | 329,968 |
| SRF Series 2013D: USAF | 693,412 | - | (28,523) | 664,889 | 29,386 |
| SRF Series 2013C: Box Elder | 694,140 | - | (28,553) | 665,587 | 29,416 |
| SRF Series 2013B: Int. USAF | 4,724,291 | - | (201,151) | 4,523,140 | 207,254 |
| SRF Series 2013A: Int. Box Elder | 1,574,764 | - | (67,051) | 1,507,713 | 69,085 |
| Total Business-type Activities | 22,193,329 | - | (965,782) | 21,227,547 | 995,077 |
| Total Long-term Liabilities | $ 23,813,829 | $ - | $ (965,782) | $ 22,848,047 | $ 995,077 |

## NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

Outstanding debt obligations at June 30, 2018 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. | $ 6,933,109 |
| 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. | 6,933,109 |
| Consolidated Water Facilities Construction Program Loan Series 2013C - Box Elder, bonds requiring semi-annual payments of $24,583 that began November 1, 2015 until maturity on November 1, 2035. Payments include interest at 3%. Debt payments will be paid with pledged user fees from operating the plant. | 665,587 |
| Consolidated Water Facilities Construction Program Loan Series 2013D - USAF, bonds requiring semi-annual payments of $24,557 that began November 1, 2015 until maturity on November 1, 2035. Payments include interest at 3%. Debt payments will be paid with pledged user fees from operating the plant. | 664,889 |
| SRF Series 2013B - USAF, bonds requiring quarterly payments of $85,158 that began 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. | 4,523,140 |

**NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)**

| | |
|---|---|
| SRF Series 2013A - Box Elder, bonds requiring quarterly payments of $28,386 that began 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. | 1,507,713 |
| Total Business-type Activities | $ 21,227,547 |

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

Governmental Activities:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2033 | $ 1,620,500 | $ - | $ 1,620,500 |

Business-type Activities:

| Years Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 995,077 | $ 625,921 | $ 1,620,998 |
| 2020 | 1,025,260 | 595,738 | 1,620,998 |
| 2021 | 1,056,359 | 564,639 | 1,620,998 |
| 2022 | 1,088,401 | 532,597 | 1,620,998 |
| 2023 | 1,121,415 | 499,584 | 1,620,999 |
| 2024 - 2028 | 6,138,412 | 1,966,579 | 8,104,991 |
| 2029 - 2033 | 7,127,623 | 977,399 | 8,105,022 |
| 2034 - 2036 | 2,675,000 | 81,832 | 2,756,832 |
| | $ 21,227,547 | $ 5,844,289 | $ 27,071,836 |

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.

**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 | $ 27,071,836 |
| Pledged Revenue Recognized | 2,669,624 |
| Principal and Interest Requirements | 1,620,998 |

## 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 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 - 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.

The Authority joined the South Dakota Authority Captive Insurance Company, LLC (SDACIC), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota Authorities. The objective of the SDACIC is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Authority's responsibility is to promptly report to and cooperate with the SDACIC to resolve any incident which could result in a claim being made or by or against the Authority. The Authority pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDACIC member, based on their exposure or type of coverage. The Authority pays an annual premium to the pool to provide coverage for property insurance, general liability, automobile, crime, boiler and machinery, umbrella liability, and errors and omissions. The agreement with the SDACIC provides that the above coverage will be provided with up to a $5,000,000 limit on liability coverage and directors' and officers' coverage. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of deductibles. As of June 30, 2018, the Authority carried deductibles of $25,000 for each coverage type.

## NOTE 12 - CONCENTRATIONS

All charges for services reported in the waste water treatment plant fund are generated from two customers: the United States Air Force (55%) and the City of Box Elder (45%). Accounts receivable for the waste water treatment plant fund were also comprised of balances from the United States Air Force (58%) and the City of Box Elder (42%). 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 13 - BUDGETARY INFORMATION

There is no legal requirement for a General Fund budget.

## NOTE 14 - CONTRACTS

The Authority has a contract with an unrelated third party to operate and maintain the waste water treatment plant. The contract is effective 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, 2018 were $523,660.

## NOTE 15 - LEASES

The Authority leases office space in Rapid City with a noncancelable operating lease that terminates on July 31, 2020. The lease agreement requires monthly payments of $542 through June 30, 2018 and $583 through July 2020 and the Authority receives donated monthly rent for the same space in the amount of $750 each month. Donated rent of $9,000 has been recognized in the financial statements. Annual rent expense for the year ended June 30, 2018 was $15,000. Future minimum rents are as follows for the years ended June 30:

| | Rent Payments | Donated Rent | Total Rent Expense |
|---|---|---|---|
| 2019 | $ 6,955 | $ 9,000 | $ 15,955 |
| 2020 | 7,000 | 9,000 | 16,000 |
| 2021 | 583 | 750 | 1,333 |

The Authority rents owned properties to other parties under various operating lease agreements. Annual lease revenues were $65,364 for the year ended June 30, 2018. Lease revenues are expected to be $900 each year until June 30, 2026. Revenues from tenants in properties purchased under the REPI program are recorded when amounts are collected from tenants.

## NOTE 16 - TRANSACTIONS WITH STATE OF SOUTH DAKOTA AND OTHER COMPONENT UNITS

During the year ended June 30, 2018, the Authority received $300,000 from the South Dakota Governor's Office of Economic Development (GOED) for the general operating support of the Authority. The Authority was also previously awarded $3,000,000 from the GOED for the purpose of matching funds awarded by the U.S. Department of Defense for the REPI program (as explained in Note 7). The Authority records the GOED matching funds as revenue when the funds have been used to meet the objectives of the REPI program. At June 30, 2018, all GOED funds had been recognized as revenue, and the state of South Dakota owed the Authority $695,222 for matches paid with Authority funds. A receivable was not recorded for this amount, as it is not certain if and when the GOED will appropriate funds to the Authority.

## NOTE 17 - SUBSEQUENT EVENTS

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

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SUPPLEMENTARY INFORMATION

# South Dakota Ellsworth Development Authority
# Schedule of Operations Expenses
# For the Year Ended June 30, 2018

| | General Fund | Adjustments | Statement of Activities |
|---|---|---|---|
| Operations Expenses: | | | |
| Contracted Services | $ 423,500 | $ - | $ 423,500 |
| Professional Fees | 190,848 | - | 190,848 |
| Land Operations Costs | 8,425,891 | 5,201,420 | 13,627,311 |
| Office Expenses | 22,087 | - | 22,087 |
| Travel | 10,710 | - | 10,710 |
| Other | 11,611 | - | 11,611 |
| | $ 9,084,647 | $ 5,201,420 | $ 14,286,067 |

See independent auditor's report.

OTHER REPORTS

Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

## 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, the business-type activities, and each major fund of the **South Dakota Ellsworth Development Authority** (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 19, 2018.

**Internal Control over Financial Reporting**
In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion(s) 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as 2018-001, that we consider to be a significant deficiency.

**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*.

**Authority's Response to Finding**
The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**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

KETEL THORSTENSON, LLP
Certified Public Accountants

October 19, 2018

**SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY**

**SCHEDULE OF FINDINGS**
**FOR THE YEAR ENDED JUNE 30, 2018**

**Significant Deficiency**

Finding 2018-001: Audit Adjustment

*Condition and Cause:* As part of the audit, we posted an audit adjustment to reclassify the proper portion of insurance expenditures from the general fund to the waste water treatment plant fund. Based on a representation from management, the portion of the insurance related to each fund had not been previously detailed out. After making this reclassification, an additional receivable was also recorded in order to recoup the proper costs from the plant fund users.

*Criteria and Effect:* Governmental accounting standards require that expenditures specific to a fund be coded to that fund, regardless of where payment originates, in order to present accurate results of operations.

*Repeat Finding from Prior Year:* Yes, prior year finding 2017-001.

*Recommendation:* The Authority should allocate insurance costs to the waste water treatment plant fund on a monthly basis and incorporate those costs into a regular billing cycle. This will allow management to collect all fees on a timely basis, and provide more accurate debt covenant monitoring.

*Response/Corrective Action Plan:* The Authority agrees with the above finding. See Corrective Action Plan.

MANAGEMENT RESPONSE

Ellsworth Development Authority

PO Box 477 • Rapid City, SD 57709 • Tel 605-719-3844

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Material Weakness

<u>Finding 2017-001: Audit Adjustment</u>

*Condition and Cause*: The Authority hired a third party accountant to perform year-end accrual basis adjustments and prepare the financial statements in accordance with generally accepted accounting principles. During the audit process, we noted deferred revenue was understated by $115,400. The error is due to property appraisals being included as expenditures on the REPI tracking spreadsheet prior to the Authority closing on the property.

*Criteria and Effect*: The spreadsheet used to track REPI property included property purchased after year-end; however, this total was used in the deferred revenue calculation, resulting in the understatement. This is purely an error in year-end calculation of revenue. It is not a reflection of how the REPI property is tracked and is not indicative on any compliance issues.

*Repeat Finding*: Yes, reported as 2016-001.

*Auditor's Recommendation*: Although a cumulative spreadsheet is necessary to properly track the REPI activity under the five-year program, the fiscal year-end copy used to support the financial statement balances should include an additional removing any appraisal amounts on properties not yet purchased by the Authority. Program costs used in the revenue recognition calculation should include actual costs incurred, as well as Yellow Book appraisal amounts for property closed on prior to the fiscal year-end.

*Current Status*: The Authority revised tracking methods for the REPI program for accounting purposes and performs regular reconciliations between the tracking spreadsheet and the accounting records. This finding has been resolved.

Ellsworth Development Authority

PO Box 477 • Rapid City, SD 57709 • Tel 605-719-3844

# CORRECTIVE ACTION PLAN

South Dakota Ellsworth Development Authority respectfully submits the following corrective action plan for the year ended June 30, 2018.

Name and address of independent public accounting firm:

Ketel Thorstenson, LLP
810 Quincy Street
Rapid City, SD 57701

**Significant Deficiency**
Finding 2018-001: Audit Adjustment

*Condition and Cause*: As part of the audit, we posted an audit adjustment to reclassify the proper portion of insurance expenditures from the general fund to the waste water treatment plant fund. Based on a representation from management, the portion of the plan related to each fund had not previously been detailed out. After making this reclassification, an additional receivable was also recorded in order to recoup the proper costs from the plan users.

*Criteria and Effect*: Governmental accounting standards require that expenditures specific to a fund be coded to that fund, regardless of where payment originates, in order to present accurate results of operations.

*Repeat Finding*: Yes, reported as 2017-001.

*Auditor's Recommendation*: The Authority should allocate captive insurance costs to the waste water treatment plant on a monthly basis and incorporate those costs into a regular billing cycle. This will allow management to collect all fees due on a timely basis, as well as provide more accurate debt covenant monitoring.

*Management Response:* The South Dakota Ellsworth Development Authority concurs with the proposed audit adjustment and has posted it to the financial statements. The receivable has been collected from the waste water treatment plant users.

The South Dakota Ellsworth Development Authority allocates all plant operating costs to each customer based on plant usage each month. This allocation included a monthly portion of the insurance costs in question. After discussing the allocation method with the auditors, we agreed to amend the allocation method shifting more insurance costs to the Waste Water Treatment Plant Fund.