

**SOUTH DAKOTA ECONOMIC DEVELOPMENT  
FINANCE AUTHORITY**

**AUDIT REPORT**

**Fiscal Year Ended June 30, 2021**



**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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RUSSELL A. OLSON  
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 Kristi Noem  
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 Economic Development Finance Authority (Authority), a component unit of the State of South Dakota, as of and for the year ended June 30, 2021, 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 22, 2021.

**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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph 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 have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Current Audit Finding and Recommendation as item 2021-004, to be a material weakness.

**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

financial statements. 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*.

### **Economic Development Finance Authority's Response to Findings**

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Current Audit Findings and Recommendations. 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 it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.



Russell A. Olson  
Auditor General

October 22, 2021

# ECONOMIC DEVELOPMENT FINANCE AUTHORITY

## CURRENT AUDIT FINDING AND RECOMMENDATION

Financial Statement Audit Finding:

**Finding No. 2021-004:** Inadequate internal controls over financial reporting

**Type of Finding:** *Material Weakness*

**Criteria:**

South Dakota Codified Law (SDCL) 1-16B-56 states, in part:

The Value Added Finance Authority created by chapter 1-16E is hereby abolished. The rights, privileges, and duties of the Value Added Finance Authority, the holders of bonds and other obligations issued, and of the parties to contracts, leases, indentures, and other documents or transactions entered into, before July 1, 2020, by the Value Added Finance Authority or any officer or employee thereof, and covenants and agreements as set forth therein, remain in effect, and none of those rights, privileges, duties, covenants, or agreements are impaired or diminished by abolition of the Value Added Finance Authority. The Economic Development Finance Authority is substituted for the Value Added Finance Authority and succeeds to the rights, privileges, and duties, and leases, indentures, accounts, and other documents or transactions.

Governmental Accounting Standards Board (GASB) Statement 69 states:

A government merger is a government combination of legally separate entities in which no significant consideration is exchanged and...one or more legally separate governments or nongovernmental entities cease to exist and their operations are absorbed into, and provided by, one or more continuing governments.

The beginning net position of the merged government results from combining the carrying value of the assets, deferred outflow of resources, liabilities, or deferred inflows of resources of the separate entities.

Governmental Accounting Standards Board Interpretation (GASBI) 2 states:

Conduit debt obligations should be disclosed in the notes to the financial statements of the issuing entity. The disclosures should include:

- a. A general description of the conduit debt transactions
- b. The aggregate amount of all conduit debt obligations outstanding at the balance sheet date

**Condition:**

The Economic Development Finance Authority (EDFA) did not report the merger of the Value Added Finance Authority (VAFA) or disclosure on conduit debt in accordance with generally accepted accounting principles. The EDFA reported transfers in of \$904,620.18 on the Statement of Revenues, Expenses and Changes in Net Position and a cash inflow of \$792,897.00 on the Statement of Cash Flows and did not disclose VAFA conduit debt in the notes to the financial statements. The beginning net position was understated by \$904,620.18 and beginning cash on the Statement of Cash Flows was understated by \$792,897.00.

**ECONOMIC DEVELOPMENT FINANCE AUTHORITY  
(continued)**

Cause:

Accounting standards relevant to proper reporting of government combinations were not used in the preparation of the financial statements.

Effect:

The Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows were materially misstated in addition to the omission of required disclosures.

Repeat Finding from Prior Year:

No

Recommendation:

1. We recommend that controls be evaluated to ensure the ability to prevent material misstatements from occurring.

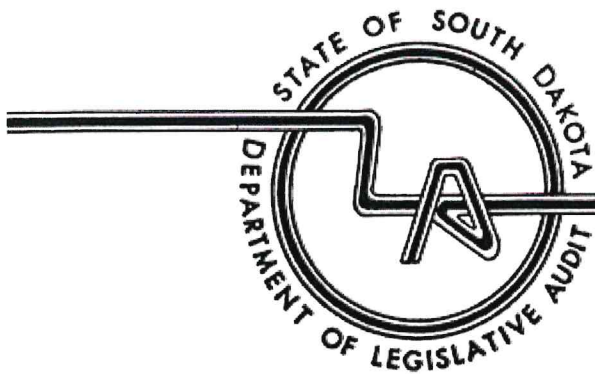
Views of Responsible Officials:

GOED concurs with this finding.

Corrective Action Plan:

The Governor's Office of Economic Development (GOED) staff acknowledge the conditions related to the finding. Government mergers of legally separate entities are very rare for the component units reported by the GOED. The act of combining the EDFA and the VAFA was unique in nature and will not be a regularly recurring event. Existing controls will be modified to include reference to GASB Statement 69 for review in the event of future mergers with other entities. The existing controls will also be revised to clearly state the inclusion of conduit debt obligations per GASBI 2. Internal processes will be modified to make best efforts to gather information on the aggregate amount of all conduit debt obligations outstanding.





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RUSSELL A. OLSON  
AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

The Honorable Kristi Noem  
Governor of South Dakota

and

Board of Directors  
South Dakota Economic Development Finance Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the South Dakota Economic Development Finance Authority (Authority), a component unit of the State of South Dakota, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2021, 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.

### ***Emphasis-of-Matter***

The Legislature abolished the Value Added Finance Authority and transferred its functions to the Authority effective at the beginning of the fiscal year. Beginning balances in the accompanying financial statements and notes to the financial statements reflect this merger. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.



Russell A. Olson  
Auditor General

October 22, 2021



## 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, 2021. This analysis should be read in conjunction with the Independent Auditor's Report, financial statements, and notes to the financial statements.

### **Financial Analysis**

The Authority acquired the assets/liabilities of the former Value Added Finance Authority (VAFA) on July 1, 2020. The acquisition resulted in a cash increase of \$792,897, interest receivable increase of \$1,403, loans receivable increase of \$1,431,720, loans receivable allowance increase of \$14,317, USDA payable increase of \$1,299,692, accrued interest payable increase of \$7,391 and beginning net position increase of \$904,620.

During the year the Authority received \$837,766 in regularly scheduled pooled loan payments and paid \$853,392 in principal and interest payments on the Series 2013A bonds. Additionally, the Authority received \$88,868 in APEX loan repayments and currently has no debt owed for the APEX loan program. Additionally, the Authority received \$215,057 in VAARP loan repayments and paid \$82,517 in principal and interest payments to rural development. There were no additional APEX, pooled or VAARP loans issued during the year.

### **Financial Highlights as of June 30, 2021**

- Total assets of the Authority decreased \$446,799 (or 2.38%) primarily due to the payment of loans during the year ending June 30, 2021.
- Total liabilities of the Authority decreased by \$516,311 (or 5.26%) primarily due to the decrease in due to other government and bonds payable during the year ending June 30, 2021.
- No new bond issuances or early redemptions of pooled bonds occurred in the year ending June 30, 2021.
- The related decreases to the balances in loans receivable and debt outstanding resulted in the associated decreases to interest income on loans and interest expense.

### **Debt Administration:**

- The Authority did not issue any tax-exempt bonds during fiscal year 2021.
- Outstanding pooled loan bonds payable bear interest at rates ranging from 4.65% to 5.80% as of June 30, 2021. \$420,000 of regularly scheduled bonds was redeemed during fiscal year 2021.
- The Authority's pooled loan bonds are rated AA by Standard and Poor's as of June 30, 2021.
- More detailed information about the Authority's debt can be found in Note 4, Long-Term Debt.

**Changes in Assets and Liabilities**

	<u>FY 2020 *</u>	<u>FY 2021</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
<b>Assets:</b>				
Cash and Cash Equivalents	\$ 4,682,426	\$ 7,995,729	\$ 3,313,303	70.76%
Investments	5,154,219	2,083,643	(3,070,576)	(59.57)
Loans Receivable	9,205,330	8,515,804	(689,526)	(7.49)
Allowance for Uncollectible Loans	(297,684)	(297,684)	0	NA
<b>Total Assets</b>	<u>18,744,291</u>	<u>18,297,492</u>	<u>(446,799)</u>	<u>(2.38)</u>
<b>Liabilities:</b>				
Bonds Payable	420,000	435,000	15,000	3.57
Accrued Interest Payable	117,531	107,808	(9,723)	(8.27)
Due to Other Government	1,299,692	1,217,175	(82,517)	(6.35)
Loan Escrow Payable	846,730	842,659	(4,071)	(0.48)
Noncurrent Bonds Payable	7,135,000	6,700,000	(435,000)	(6.10)
<b>Total Liabilities</b>	<u>9,818,953</u>	<u>9,302,642</u>	<u>(516,311)</u>	<u>(5.26)</u>
Restricted Net Position	5,000,000	5,000,000	0	NA
Unrestricted Net Position	3,925,338	3,994,850	69,512	1.77
<b>Total Net Position</b>	<u>\$ 8,925,338</u>	<u>\$ 8,994,850</u>	<u>\$ 69,512</u>	<u>0.78%</u>

**Change in Net Position**

	<u>FY 2020 *</u>	<u>FY 2021</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
<b>Revenues:</b>				
Interest Income on Loans	\$ 472,690	\$ 459,355	\$ (13,335)	(2.82)%
Bond Fees	3,720	83,300	79,580	2,139.25
Investment Income	274,922	10,428	(264,494)	(96.21)
<b>Total Revenues</b>	<u>751,332</u>	<u>553,083</u>	<u>(198,249)</u>	<u>(26.39)</u>
<b>Expenses:</b>				
Interest Expense	429,887	428,710	(1,177)	(0.27)
Contractual Services	50,183	54,861	4,678	9.32
Grant Expense	1,500,000	0	(1,500,000)	(100.00)
Other Expense	3,299	0	(3,299)	(100.00)
<b>Total Expenses</b>	<u>1,983,369</u>	<u>483,571</u>	<u>(1,499,798)</u>	<u>(75.62)</u>
<b>Change in Net Position</b>	<u>\$ (1,232,037)</u>	<u>\$ 69,512</u>	<u>\$ 1,301,549</u>	<u>(105.64)%</u>

\*FY 2020 balances include the Value Added Finance Authority.

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, 2021**

**Assets**

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 2,845,233
Restricted Cash & Cash Equivalents (Note 2)	5,150,495
Total Cash and Cash Equivalents	7,995,728

Investments (Note 2)	629,625
Restricted Investments (Note 2)	691,715
Investment Interest Receivable	11,879
Loan Interest Receivable	35,315
Loans Receivable (Note 3)	586,272
Total Current Assets	9,950,534

Noncurrent Assets:

Investments (Note 2)	750,425
Loans Receivable (Net of Allowance for Loan Loss) (Note 3)	7,596,533
Total Noncurrent Assets	8,346,958

<b>Total Assets</b>	<b>18,297,492</b>
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**Liabilities**

Current Liabilities:

Accrued Interest Payable	107,808
Due To Other Governments (Note 6)	83,342
Bonds Payable (Note 4)	435,000
Total Current Liabilities	626,150

Noncurrent Liabilities:

Due to Other Governments (Note 6)	1,133,833
Loan Escrow Payable	842,659
Bonds Payable (Note 4)	6,700,000
Total Noncurrent Liabilities	8,676,492

<b>Total Liabilities</b>	<b>9,302,642</b>
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**Net Position**

Restricted for Debt Service (Note 1.H.)	5,000,000
Unrestricted	3,994,850
	8,994,850

<b>Total Net Position</b>	<b>\$ 8,994,850</b>
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The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA ECONOMIC DEVELOPMENT  
FINANCE AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Fiscal Year Ended June 30, 2021**

<b>Operating Revenue:</b>	
Interest Income on Loans	\$ 459,355
Bond Fees	83,300
Total Operating Revenue	<u>542,655</u>
<b>Operating Expenses:</b>	
Contractual Services	54,861
Interest Expense	428,710
Total Operating Expenses	<u>483,571</u>
Operating Income (Loss)	59,084
<b>Nonoperating Revenue (Expense):</b>	
Investment Income	<u>10,428</u>
Total Nonoperating Revenue (Loss)	<u>10,428</u>
Change in Net Position	69,512
Net Position at the Beginning of the Year	<u>8,925,338</u>
<b>Net Position at End of Year</b>	<u><u>\$ 8,994,850</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, 2021**

**Cash Flows from Operating Activities:**

Receipts for Pooled Loan Repayments	\$ 837,766	
Receipts for APEX Loan Repayments	88,868	
Receipts for VAARP Loan Repayments	215,057	
Payments for Contractual Services	(59,902)	
Other Receipts	86,426	
Net Cash Provided by Operating Activities		1,168,215

**Cash Flows from Noncapital Financing Activities:**

Principal Paid on Revenue Bonds	(420,000)	
Interest Payments on Loans, Bonds and Notes	(433,392)	
Principal Paid to Other Governments	(82,517)	
Net Cash Used by Noncapital Financing Activities		(935,909)

**Cash Flows from Investing Activities:**

Proceeds from Sales and Maturities of Investment Securities	2,987,242	
Investment Income	93,753	
Net Cash Provided by Investing Activities		3,080,995

Net Increase in Cash and Cash Equivalents During the Fiscal Year		3,313,301
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Restated Cash and Cash Equivalents at Beginning of Year		4,682,427
Cash and Cash Equivalents at End of Year		\$ 7,995,728

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

Operating Income (Loss)		\$ 59,084
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**Adjustments to Reconcile Operating Income  
to Net Cash Provided by Operating Activities**

Interest Expense	428,710	
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**Decrease/(Increase) in Assets:**

Loan Interest Receivable	3,875	
Loans Receivable	685,650	

**Increase/(Decrease) in Liabilities:**

Accounts Payable	(5,041)	
Loan Escrow Payable	(4,063)	
Total Adjustments		1,109,131
Net Cash Provided by Operating Activities		\$ 1,168,215

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, 2021**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Authorizing Legislation

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

B. Fund Accounting

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

C. Basis of Accounting

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

D. Cash and Cash Equivalents

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

E. Investments

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

#### F. Loan Escrow Payable

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

#### G. Net Position

Net Position may be classified in the following three components:

- Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.
- Restricted – Consists of net position with constraints placed on their use by (1) bond indentures and (2) law through enabling legislation.
- Unrestricted – Consists of net position that does not meet the definition of net investments in capital assets or restricted.

#### H. Restricted Net Position

The bond indentures provide that certain reserve accounts be established. The reserve accounts, as of June 30, 2021, are comprised of restricted net position as follows:

Capital Reserve Account      \$ 5,000,000

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

#### I. Conduit Debt Obligations

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

Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by an entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. The Authority has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued and the debt is not included in the accompanying financial statements. As of June 30, 2021, the Authority had the following conduit debt obligations:

**BEGINNING FARMER BOND PROGRAM** The South Dakota Beginning Farmer Bond Program is a tax-exempt bond program designed to assist qualifying beginning farmers in the state of South Dakota to acquire agricultural property at lower interest rates. The

Program enables lenders, individuals, and other entities to receive federally tax-exempt interest with respect to a loan or contract sale made to beginning farmers. Annually, the Beginning Farmer Bond Program is allocated \$10 million of the state's tax-exempt bond volume cap for the purpose of assisting beginning farmers in acquiring capital at reduced interest rates.

Activities eligible under the Beginning Farmer Bond Program include loans for the acquisition of agricultural land, the acquisition, construction, or reconstruction of agricultural buildings and fixtures, and the acquisition of depreciable agricultural property including machinery, equipment, and livestock. The maximum amount of a Beginning Farmer Bond is \$558,000 for calendar year 2021 (indexed annually).

Created in 1996, the Beginning Farmer Bond Program made an immediate impact on South Dakota's beginning farmers. Eight tax-exempt bonds were issued the same fiscal year, financing \$721,814.00 at an average interest rate of 7.26%. Since inception, 346 bonds have been issued financing \$47,194,865.85.

As of June 30, 2021, there were 113 Beginning Farmer Bond Program Series Revenue Bonds outstanding. The aggregate principal amount payable on June 30, 2021, could not be determined; however, the original issue amount totaled \$23.0 million.

#### **AGRIBUSINESS BOND PROGRAM**

The purpose of the Agribusiness Bond Program is to assist in the development and expansion of agricultural and business enterprises within the State of South Dakota. The Authority issues tax-exempt bonds to finance qualified projects according to the provisions of the Internal Revenue Code of 1986. Such provisions limit the list of projects that can be financed with tax-exempt bonds to manufacturing projects, including processing, certain housing projects, projects for tax-exempt organizations (501(c)(3)), and projects for first-time farmers. Therefore, with regard to the Authority's goal, the Agribusiness Bond Program is intended to finance value added agricultural processing and manufacturing projects.

As of June 30, 2021, there were 7 Agribusiness Bond Program Series Revenue Bonds outstanding. The aggregate principal amount payable on June 30, 2021, could not be determined; however, the original issue amount totaled \$18.6 million.

#### **LIVESTOCK NUTRIENT MANAGEMENT BOND PROGRAM**

The Livestock Nutrient Management Bond Program was developed in 2001 as part of the Agribusiness Bond Program. Its purpose is to assist livestock producers in developing a livestock nutrient management facility. This program will assist producers in obtaining lower-interest financing for costs associated with a management plan. The Authority issues tax-exempt bonds to finance the capital expenditures associated with the handling and/or processing of byproducts and livestock nutrients (manure). Any costs incurred for property or any portion used for the collection, storage, treatment, utilization, processing, or final disposal of livestock nutrients up to the point that the livestock nutrients have value are eligible.

The Livestock Nutrient Management Bond program has closed a total of 31 bonds since the program started in State Fiscal Year 2002. To date, \$42,610,379.56 has been issued since the program began and seven bonds have been paid in full.

As of June 30, 2021, there were 22 Livestock Nutrient Management Bond Program Series Revenue Bonds outstanding. The aggregate principal amount payable on June 30, 2021, could not be determined; however, the original issue amount totaled \$39.5 million.

#### J. Restricted Resources

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

#### K. Revenue and Expense Recognition

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

#### L. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

## 2. CASH AND INVESTMENTS

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

#### *Restricted and Unrestricted Cash and Investments:*

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

	<u>Fair Value</u>
Unrestricted Cash and Investments	\$ 4,225,283
Restricted Cash and Investments – Capital Reserve Account and Loan Reserve Accounts	5,842,210
Total Cash and Investments	<u>\$ 10,067,493</u>

***Custodial Credit Risk:***

The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value on investment securities and deposits that are in the possession of an outside party. The Authority does not have a policy in place for custodial credit risk. Investments securities totaling \$6,950,925 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, 2021, the Authority had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
U.S. Treasury Note	\$ 30,604	\$ 0	\$ 30,604
Bonds	375,876	112,364	263,512
Certificates of Deposit	1,665,284	1,208,975	456,309
Total	<u>\$ 2,071,764</u>	<u>\$ 1,321,339</u>	<u>\$ 750,425</u>

***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, 2021, 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>Rating</u>	<u>Fair Value</u>
AA+	\$ 101,899
AAA	271,210
	<u>\$ 373,109</u>

***Concentration of Credit Risk:***

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



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

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

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

US Bank, which serves as trustee, uses a pricing service, FT interactive, to value investments. FT interactive uses market approach pricing which utilizes models and pricing systems as well as mathematical tools and pricing analyst judgment. All EDFA investments are priced by this service which is not quoted prices in an active market, by rather significant other observable inputs; therefore, the investments are categorized as Level 2.

### 3. LOANS RECEIVABLE

Change in loans receivable for the year ending June 30, 2021 consisted of the following:

Beginning Balance *	\$ 9,166,139
Pooled Loans Principal Payments	(423,750)
APEX Program Loan Principal Payments	(85,739)
VAARP Program Loan Principal Payments	(176,161)
Loans Receivable – Before Allowance	<u>8,480,489</u>
Allowance for Loan Loss applicable	
to the Pooled Loan Program	(138,646)
to the APEX Loan Program	(146,482)
to the VAARP Loan Program	<u>(12,556)</u>
<b>TOTAL LOANS RECEIVABLE – Net of Allowance</b>	<b><u>\$ 8,182,805</u></b>
*Includes Value Added Agriculture Relending Program (VAARP)	

The Allowance for Loan Loss applicable to the Pooled Loans is greater than the 1% required for the year ending June 30, 2021. The pooled loan associated with the 2013A bond issuance has an ending balance of \$7,026,250 before allowance.

#### 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, 2021:

Beginning Balance	\$ 7,555,000
Bonds Retired	<u>(420,000)</u>
Ending Balance	<u>\$ 7,135,000</u>
Due Within One Year	<u>\$ 435,000</u>

The following are the revenue bonds outstanding for the pooled bond program at June 30, 2021:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity Through</u>	<u>Principal Balance</u>
Series 2013A			
Term Bonds	4.65-5.80%	2033	\$ 7,135,000

The following is a schedule of future bond payments and future interest payments remaining at June 30, 2021:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>
2022	\$ 435,000	\$ 403,595	\$ 838,595
2023	455,000	383,368	838,368
2024	480,000	362,210	842,210
2025	505,000	334,370	839,370
2026	535,000	305,080	840,080
2027-2031	3,180,000	1,022,250	4,202,250
2032-2033	<u>1,545,000</u>	<u>135,720</u>	<u>1,680,720</u>
Total	<u>\$ 7,135,000</u>	<u>\$ 2,946,593</u>	<u>\$ 10,081,593</u>

#### 5. PUBLIC ENTITY POOL FOR LIABILITY

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management program includes coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

## 6. DUE TO'S

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

Beginning Balance *	\$ 1,299,692
Loans Retired	<u>(82,517)</u>
Ending Balance	<u>\$ 1,217,175</u>
Due Within One Year	<u>\$ 83,342</u>

\*includes Value Added Agriculture Relending Program