

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY**

AUDIT REPORT

Fiscal Year Ended June 30, 2023



**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, 2023, 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 25, 2023.

Report on 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 Authority's internal control.

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

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

Report on 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*.

Purpose of this Report

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



Russell A. Olson, Auditor General
Pierre, South Dakota

October 25, 2023



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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 Audit of the Financial Statements

Opinion

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 25, 2023 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
Pierre, South Dakota

October 25, 2023

South Dakota Economic Development Finance Authority Management's Discussion and Analysis June 30, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Dakota Economic Development Finance Authority's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2023. This analysis should be read in conjunction with the Independent Auditor's Report, financial statements, and notes to the financial statements.

FINANCIAL ANALYSIS

During the year, the Authority received \$881,299 in regularly scheduled pooled loan payments and paid \$850,155 in principal and interest payments on the Series 2013A bonds. Additionally, the Authority received \$69,143 in loan payments and wrote off \$35,252 for the APEX program, there is no debt owed under the APEX loan program. The Authority received \$240,110 in VAARP loan repayments and paid \$1,145,620 in principal and interest payments to rural development, repaying the loan in full. There were no additional APEX, pooled or VAARP loans issued during the year.

FINANCIAL HIGHLIGHTS

- Total assets of the Authority decreased by \$1,401,090 (or 7.91%) primarily due to the use of cash for the payment of loans during the year ending June 30, 2023.
- Total liabilities of the Authority decreased by \$1,576,709 (or 17.96%) primarily due to the repayment of due to other government bonds and regular payments on bonds payable during the year ending June 30, 2023.
- The related decreases in the balances of loans receivable and debt outstanding resulted in associated decreases to interest income on loans and interest expense.

DEBT ADMINISTRATION

- Outstanding pooled loan bonds payable bear interest at rates ranging from 4.65% to 5.80% as of June 30, 2023. \$455,000 of regularly scheduled bonds was redeemed during fiscal year 2023.
- The Authority's pooled loan bonds are rated AA by Standard and Poor's as of June 30, 2023.
- More detailed information about the Authority's debt can be found in Note 5.

**South Dakota Economic Development Finance Authority
Management's Discussion and Analysis
June 30, 2023**

Changes in Assets and Liabilities

	FY 2022	FY 2023	Increase (Decrease)	% Increase (Decrease)
Assets:				
Cash and Cash Equivalents	\$ 9,538,509	\$ 9,129,768	\$ (408,741)	-4.29%
Investments	707,970	421,075	(286,895)	-40.52%
Loans Receivable	7,742,064	6,899,194	(842,870)	-10.89%
Allowance for Uncollectible Loans	(266,366)	(128,950)	137,416	-51.59%
Total Assets	<u>17,722,177</u>	<u>16,321,087</u>	<u>(1,401,090)</u>	<u>-7.91%</u>
Liabilities:				
Bonds Payable	455,000	480,000	25,000	5.49%
Accrued Interest Payable	102,264	90,553	(11,711)	-11.45%
Due to other Governments	1,133,833	-	(1,133,833)	-100.00%
Loan Escrow Payable	842,659	866,494	23,835	2.83%
Noncurrent Bonds Payable	6,245,000	5,765,000	(480,000)	-7.69%
Total Liabilities	<u>8,778,756</u>	<u>7,202,047</u>	<u>(1,576,709)</u>	<u>-17.96%</u>
Restricted Net Position	5,000,000	5,000,000	-	0.00%
Unrestricted Net Position	3,943,421	4,119,040	175,619	4.45%
Total Net Position	<u>\$ 8,943,421</u>	<u>\$ 9,119,040</u>	<u>\$ 175,619</u>	<u>1.96%</u>

Change in Net Position

	FY 2022	FY 2023	Increase (Decrease)	% Increase (Decrease)
Revenues:				
Interest Income on Loans	\$ 431,049	\$ 405,374	\$ (25,675)	-5.96%
Investment Income (Loss)	(25,780)	227,125	252,905	981.01%
Total Revenues	<u>405,269</u>	<u>632,499</u>	<u>227,230</u>	<u>56.07%</u>
Expenses:				
Interest Expense	410,223	383,443	(26,780)	-6.53%
Subsidy to Borrower	-	79,673	79,673	100.00%
Provision for Loan Loss	(22,705)	(38,256)	(15,551)	68.49%
Contractual Services	69,180	32,020	(37,160)	-53.71%
Total Expenses	<u>456,698</u>	<u>456,880</u>	<u>182</u>	<u>0.04%</u>
Changes in Net Position	<u>\$ (51,429)</u>	<u>\$ 175,619</u>	<u>\$ 227,048</u>	<u>441.48%</u>

South Dakota Economic Development Finance Authority
Statement of Net Position
June 30, 2023

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,924,614
Restricted Cash and Cash Equivalents	6,205,154
Total Cash and Cash Equivalents	9,129,768

Investments	181,288
Loan Interest Receivable	32,555
Loans Receivable (Net of Allowance for Loan Loss)	577,386

Total Current Assets	9,920,997
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Noncurrent Assets:

Investments	239,787
Loans Receivable (Net of Allowance for Loan Loss)	6,160,303

Total Noncurrent Assets	6,400,090
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Total Assets	16,321,087
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LIABILITIES

Current Liabilities:

Accrued Interest Payable	90,553
Current Portion of Bonds Payable	480,000

Total Current Liabilities	570,553
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Noncurrent Liabilities:

Due to Other Governments	-
Loan Escrow Payable	866,494
Long-term Portion of Bonds Payable	5,765,000

Total Noncurrent Liabilities	6,631,494
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Total Liabilities	7,202,047
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NET POSITION

Restricted for Debt Service	5,000,000
Unrestricted	4,119,040

TOTAL NET POSITION	\$ 9,119,040
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The accompanying notes are an integral part of this statement.

South Dakota Economic Development Finance Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

OPERATING REVENUE	
Interest Income on Loans	\$ 405,374
OPERATING EXPENSES	
Contractual Services	32,020
Subsidy to Borrower	79,673
Provision for Loan Loss	(38,256)
Interest Expense	<u>383,443</u>
Total Operating Expenses	<u>456,880</u>
Operating Income (Loss)	<u>(51,506)</u>
NONOPERATING EXPENSES	
Investment Return	<u>227,125</u>
CHANGE IN NET POSITION	175,619
BEGINNING NET POSITION	<u>8,943,421</u>
ENDING NET POSITION	<u>\$ 9,119,040</u>

The accompanying notes are an integral part of this statement.

South Dakota Economic Development Finance Authority
Statement of Cash Flows
For the Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts for Pooled Loan Repayments	\$ 461,250
Receipts for APEX Loan Repayments	69,188
Receipts for VAARP Loan Repayments	212,583
Payments for Contractual Services	(32,020)
Receipts for Interest on Loan Repayments	<u>406,062</u>
Net Cash Provided by Operating Activities	<u>1,117,063</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Principal Paid on Revenue Bonds	(455,000)
Interest Payments on Loans, Bonds, and Notes	(395,154)
Principal Payments to Other Governments	<u>(1,133,833)</u>
Net Cash Used by Noncapital Financing Activities	<u>(1,983,987)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investment Securities	41,858
Investment Income	<u>416,325</u>
Net Cash Provided by Investing Activities	<u>458,183</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (408,741)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 9,538,509

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 9,129,768

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ (51,506)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Interest Expense	383,443
Subsidy to Borrower from Trust Earnings	79,673
Change in Assets and Liabilities:	
Loan Interest Receivable	688
Loans Receivable	<u>704,765</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 1,117,063

The accompanying notes are an integral part of this statement.

South Dakota Economic Development Finance Authority
Notes to the Financial Statements
June 30, 2023

NOTE 1 - AUTHORIZING LEGISLATION

Executive Order 87-1 established the South Dakota Economic Development Finance Authority (the 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 Annual Comprehensive Financial Report of the State of South Dakota.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. 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.

C. 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.

D. INVESTMENTS

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

E. 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.

South Dakota Economic Development Finance Authority
Notes to the Financial Statements
June 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. NET POSITION

Net position is classified in the following three components:

Net Investment in Capital Assets - 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 bond indentures and law through enabling legislation.

Unrestricted - Consists of net position that does not meet the definition of net investments in capital assets or restricted.

G. RESTRICTED NET POSITION

The bond indentures provide that certain reserve accounts be established. The reserve accounts, as of June 30, 2023, are comprised of restricted net position as follows:

Capital Reserve Account	\$5,000,000
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The pooled bond issues require amounts to be deposited into the capital reserve account. The money on deposit in the Capital Reserve Account is irrevocably pledged to the payment of all outstanding bonds and interest, only when and to the extent that other moneys are not available. The amount on deposit in the Capital Reserve Account must be equal to at least 12.5 percent of the related bond principal outstanding. Amounts in excess of the reserve requirements may be transferred and used for other purposes.

H. 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, 2023, 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.

South Dakota Economic Development Finance Authority
Notes to the Financial Statements
June 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$600,000 for the calendar year 2023 (indexed annually).

Created in 1996, the Beginning Farmer Bond Program made an immediate impact on South Dakota's beginning farmers. Since inception, 348 bonds have been issued financing \$48,338,226.

As of June 30, 2023, there were 105 Beginning Farmer Bond Program Series Revenue Bonds outstanding. The aggregate principal amount payable on June 30, 2023, could not be determined; however, the original issue amount totaled \$23 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, 2023, there were 7 Agribusiness Bond Program Series Revenue Bonds outstanding. The aggregate principal amount payable on June 30, 2023, 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 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 32 bonds since the program started in State Fiscal Year 2002. To date, \$65,110,380 has been issued since the program began and seven bonds have been paid in full.

As of June 30, 2023, there were 23 Livestock Nutrient Management Bond Program Series Revenue Bonds outstanding. The aggregate principal amount payable on June 30, 2023, could not be determined. However, the original issue amount totaled \$61.9 million.

South Dakota Economic Development Finance Authority
Notes to the Financial Statements
June 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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.

J. 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.

K. 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.

NOTE 3 - CASH AND CASH 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 service payments. At June 30, 2023, cash and investments were broken down as follows:

	<u>Fair Value</u>
Unrestricted Cash and Investments	\$ 3,345,689
Restricted Cash and Investments - Capital Reserve Account and Loan Reserve Accounts	6,205,154
Total Cash and Investments	\$ 9,550,843

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 of 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 \$8,491,593 were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Authority's name.

South Dakota Economic Development Finance Authority
Notes to the Financial Statements
June 30, 2023

NOTE 3 - CASH AND CASH INVESTMENTS (CONTINUED)

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, 2023, the Authority had the following investments:

	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>	
		<u>Less Than 1</u>	<u>1 - 5</u>
U.S. Treasury Note	\$ -	\$ -	\$ -
Bonds	239,787	-	239,787
Certificates of Deposit	181,288	181,288	-
	<u>\$ 421,075</u>	<u>\$ 181,288</u>	<u>\$ 239,787</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, 2023, the Authority had investments of \$239,787 with a AAA rating, excluding those issued by or explicitly guaranteed by the U.S. Government or insured by FDIC, which are not considered to have credit risk.

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:

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

South Dakota Economic Development Finance Authority
Notes to the Financial Statements
June 30, 2023

NOTE 3 - CASH AND CASH INVESTMENTS (CONTINUED)

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 EDFFA 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.

NOTE 4 - LOANS RECEIVABLE

The following is a breakdown of the activity in the subfund for fiscal year 2023 and its corresponding restricted net position at June 30, 2023:

Beginning Balance	\$ 7,645,855
Pooled Loans Principal Payments	(461,250)
APEX Program Loan Principal Payments Recovery	(69,143)
Change in Provision for Loan Loss	(35,252)
VAARP Program Loan Principal Payments	<u>(212,583)</u>
Loans Receivable - Before Allowance	6,867,627
Allowance for Loan Loss Applicable to:	
Pooled Loan Program	(122,500)
VAARP Loan Program	<u>(7,438)</u>
Total Loans Receivable - Net of Allowance	<u>\$ 6,737,689</u>

The Allowance for Loan Loss applicable to the Pooled Loans is greater than the 1% required for the year ending June 30, 2023. The pooled loan associated with the 2013A bond issuance has an ending balance of \$6,123,890 before allowance.

NOTE 5 - 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, 2023:

Beginning Balance	\$ 6,700,000
Bonds Retired	<u>(455,000)</u>
Ending Balance	<u>\$ 6,245,000</u>
Due Within One Year	<u>\$ 480,000</u>

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

The following are the revenue bonds outstanding for the pooled bond program at June 30, 2023:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity Through</u>	<u>Principal Balance</u>
Series 2013A Term Bonds	4.65 - 5.80%	2033	\$ 6,245,000

The following is a schedule of future bond payments and future interest payments remaining at June 30, 2023:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>
2024	\$ 480,000	\$ 362,210	\$ 842,210
2025	505,000	334,370	839,370
2026	535,000	305,080	840,080
2027	565,000	274,050	839,050
2028	600,000	241,280	841,280
2029 - 2033	<u>3,560,000</u>	<u>642,550</u>	<u>4,202,550</u>
	<u>\$ 6,245,000</u>	<u>\$ 2,159,540</u>	<u>\$ 8,404,540</u>

NOTE 6 - 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 product 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 Annual Comprehensive Financial Report.

NOTE 7 - DUE TO OTHER GOVERNMENTS

During the year ended June 30, 2023, the Authority repaid the outstanding loans from Rural Development (RD). These loans were used to make loans to VAARP recipients. Due to other governments reported on the Statement of Net Position at June 30, 2023 consisted of the following:

Beginning Balance*	\$ 1,133,833
Loans Retired	<u>(1,133,833)</u>
Ending Balance	<u>\$ -</u>

*Includes Value Added Agriculture Relending Program

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NOTE 8 - SUBSEQUENT EVENTS

The Board approved a bond of up to \$25 million for a dairy operation in Clark County to construct an animal nutrient management facility under the Livestock Nutrient Management Bond Program. As of the date of the independent auditor's report, this loan has not been funded.

The Board also approved a \$271,000 private activity Beginning Farmer Bond that is expected to be funded within 30 days of the independent auditor's report.

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