SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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

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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 and the general 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, 2014, 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 and the general fund of the **South Dakota Ellsworth Development Authority** as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Report on Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

December 9, 2014

South Dakota Ellsworth Development Authority
Governmental Fund Balance Sheet/Statement of Net Position
June 30, 2014

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	$ 477,662	$ -	$ 477,662
Accounts Receivable	69,250	-	69,250
Long-term Notes Receivable	250,000	-	250,000
Assets Held for Development, Net	5,218,320	-	5,218,320
Land & Easements	-	381,203	381,203
Equipment	-	3,956	3,956
Construction in Progress	-	23,466,230	23,466,230
Accumulated Depreciation	-	(3,516)	(3,516)
TOTAL ASSETS	$ 6,015,232	$ 23,847,873	$ 29,863,105
LIABILITIES			
Accounts Payable	$ 3,366,076	$ -	$ 3,366,076
Accrued Interest	-	353,716	353,716
Unearned Revenue	36,000	-	36,000
Long-term Debt			
Due in One Year	-	522,324	522,324
Due in More than One Year	-	20,227,815	20,227,815
TOTAL LIABILITIES	3,402,076	21,103,855	24,505,931
DEFERRED INFLOWS OF RESOURCES			
Contributions not "Available"	4,420,770	(4,420,770)	-
FUND BALANCE/NET POSITION			
FUND BALANCE			
Nonspendable:			
Noncurrent Notes Receivable	250,000	(250,000)	
Assets Held for Development, Net of Deferred Inflows	797,550	(797,550)	
Unassigned	(2,855,164)	2,855,164	
TOTAL FUND BALANCE (DEFICIT)	(1,807,614)	1,807,614	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 6,015,232		
NET POSITION			
Net Investment in Capital Assets		1,420,600	1,420,600
Unrestricted		3,936,574	3,936,574
TOTAL NET POSITION		5,357,174	5,357,174
TOTAL LIABILITIES AND NET POSITION		$ 23,847,873	$ 29,863,105

See accompanying notes and independent auditor’s report.

South Dakota Ellsworth Development Authority
Reconciliation of the Governmental Fund Balance
Sheet to the Statement of Net Position
June 30, 2014

Total Governmental Fund Balance (Deficit)	$ (1,807,614)
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.	23,847,873
Revenue from donated land held for development is not available to pay current period expenditures and therefore, is deferred in the General Fund.	4,420,770
Long-term debt is not due and payable in the current period and therefore is not reported as a liability in the General Fund.	(20,750,139)
Interest expense is not due and payable immediately after year end and therefore is not reported as a liability in the General Fund.	(353,716)
Net Position of Governmental Activities	$ 5,357,174

See accompanying notes and independent auditor's report.

South Dakota Ellsworth Development Authority
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities
For the Year Ended June 30, 2014

	General Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Operations	$ 619,230	$ 2,199	$ 621,429
Capital Outlay	17,602,065	(17,602,065)	-
Land Use Compatability - REPI	872,992	135,034	1,008,026
Development (Gains) Losses	(14,121)	60,000	45,879
Interest Expense	3,492	353,716	357,208
Total Expenditures/Expenses	19,083,658	(17,051,116)	2,032,542
PROGRAM REVENUES			
Operating Grants and Contributions	514,000	-	514,000
Capital Contribution - Land	-	381,190	381,190
Capital Grant - REPI	803,250	-	803,250
Proceeds from Home Sales	60,646	(60,646)	-
Total Program Revenues	1,377,896	320,544	1,698,440
Net Program Expenses (Revenues)	17,705,762	(17,371,660)	334,102
GENERAL REVENUES			
Debt Proceeds	15,804,071	(15,804,071)	-
Interest Earned	9	-	9
Other Revenue	107,893	-	107,893
Total General Revenues	15,911,973	(15,804,071)	107,902
EXPENDITURES IN EXCESS OF REVENUES	(1,793,789)	1,793,789	-
CHANGE IN NET POSITION	-	(226,200)	(226,200)
FUND BALANCE/NET POSITION BEGINNING OF YEAR, AS RESTATED	(13,825)	5,597,199	5,583,374
FUND BALANCE/NET POSITION END OF YEAR	$ (1,807,614)	$ 7,164,788	$ 5,357,174

See accompanying notes and independent auditor’s report.

South Dakota Ellsworth Development Authority
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2014

Total Governmental Fund Net Change in Fund Balances	$ (1,793,789)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	18,473,936
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.	(1,069,750)
Donations of capital assets are reported in the Statement of Activities, but not the General Fund.	381,190
Proceeds from long-term debt are recorded as other financing sources in the governmental funds. However, in the Statement of Activities proceeds increase long-term liabilities.	(15,804,071)
Interest expense is not due and payable immediately after year end and therefore is not reported in the General Fund.	(353,716)
Governmental funds do not report land held for development as revenue until such time it will be sold and provide available resources. The Statement of Activities reports such contributions on the date donated.	(60,000)
Change in Net Position of Governmental Activities	$ (226,200)

See accompanying notes and independent auditor’s report.

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. Basis of Presentation

The Statement of Net Position is presented in combination with the Governmental Fund Balance Sheet. In addition, the Government-wide Statement of Activities is presented in combination with the Statement of Revenue, Expenditures and Changes in Fund Balance.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display various information about the Authority. These statements include the financial activities of the overall organization. Governmental activities are generally financed through grants, debt proceeds and other non-exchange transactions.

The Statement of Activities presents expenses and revenues of the Authority's governmental activities. Expenses are for the services that the Authority provides and are presented based on program activities. Revenues primarily include grants.

Fund Financial Statements: The fund financial statements provide information about the Authority's funds. The Authority has one fund, the General Fund, which is classified as a governmental fund, and therefore does not present proprietary or fiduciary fund categories.

As previously mentioned, the Authority only has one fund. This fund is described below:

> 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Notes Receivable

Notes receivable are comprised of mortgage loans collateralized by the underlying real property pledged by the borrowers in accordance with the terms of the mortgage loans. The mortgage loans are carried at cost, which includes unpaid principal balances and an allowance for loan losses. As of June 30, 2014, all loans were considered collectible; therefore, the allowance for loan losses was zero.

The Authority maintains an allowance for loan losses based on management’s estimate of credit losses inherent in the Authority’s loans receivable. The estimation of the allowance is based on a variety of factors including current economic conditions, delinquency trends, and the physical inspections of properties. No allowance has been recorded at June 30, 2014.

G. Assets Held for Development

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

H. Capital Assets

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

Land and easements are inexhaustible assets and are not depreciated.

Capital assets used in governmental fund operations are accounted for as capital expenditures of the fund upon acquisition.

I. 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 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.

J. Unearned Revenue

At June 30, 2014, unearned revenues include easement monitoring fees to be recognized over a period of 20 years (see Note 3).

K. 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, 2014, deferred inflows of resources represent contributed development assets which are not expected to be sold soon enough to pay liabilities of the current period.

L. Program Revenues

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

a. 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.

b. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net Position

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

Fund Balance

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

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

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

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

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

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

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

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, 2014 and has no investments. Those restrictions are summarized below:

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

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2014, the Authority's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

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

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

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

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable, at June 30, 2014, consist of amounts billed to the United States Air Force for properties that were purchased by the Authority in the area of concern for Ellsworth Air Force Base. The Authority purchases these properties from the owners at the appraised value. The Authority subsequently grants an easement to the Air Force for the properties. The Air Force pays the Authority the appraised value of the property for the easement and an additional one-time fee of $4,000 per parcel for the Authority to maintain the easements over a period of 20 years. Funds received for the easement are recognized at the time the related property is purchased by the Authority. The funds received related to monitoring the easement are deferred and a portion is recognized each year for each parcel.

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, 2014 was $4,420,770. Revenue has not been recognized 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 deferred in the fund financial statements.

Assets held for development also include an acreage (Freedom Estates) that has been subdivided for housing and commercial development. Phase I of the housing development included twelve low-income qualified homes that were all sold as of June 30, 2014. The homes were sold for $125,000 each which was greater than the total cost of development and construction. An allowance for development losses was recognized during the year ended June 30, 2013. Additional development costs and closing costs on the sale of the homes were expensed in the current year. Freedom Estates also includes land valued at $557,550 which will be sold as part of future residential and commercial development of the property.

The construction of Freedom Estates Phase II began during the year ended June 30, 2014, with costs totaling $287,209 for fiscal year 2014. Phase II includes ten lots for low-income qualified homes. The project was complete as of June 30, 2014 and was sold to one purchaser subsequent to year end. The development was sold for $240,000, with half being paid in cash and the remainder being a contract for deed for 5 years with the purchaser. An allowance for the loss on the sale has been recognized during the year ended June 30, 2014. The Freedom Estates development projects do not include any donated property.

NOTE 5 - NOTES RECEIVABLE

Notes receivable consist of second mortgages on ten low-income homes that were constructed and sold in the Freedom Estates Development Phase I (see Note 4). These homes were restricted by funding sources for sale to low-income individuals. Not all of the purchasers qualified for financing for the entire $125,000 purchase price of each home so the Authority has obtained a second mortgage on each property in the amount of $25,000. The notes are not expected to be repaid until the properties are sold or refinanced by the original purchasers. The mortgages are at zero percent interest and have no set payment terms. Payment is triggered upon (1) the sale, foreclosure, abandonment, or transfer of the property, (2) relinquishment, assignment or rental to any other person or entity, or (3) the borrower’s death. No such events occurred during the year ended June 30, 2014.

At June 30, 2014, notes receivable totaled $250,000 and was represented by mortgages with ten 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 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions/ Impairments	Balance June 30, 2014
Nondepreciable Capital Assets:				
Construction in Progress	$ 5,864,177	$ 17,602,053	$ -	23,466,230
Land & Easements	197,001	1,253,952	(1,069,750)	381,203
Total Nondepreciable Assets	6,061,178	18,856,005	(1,069,750)	23,847,433
Capital Assets Being Depreciated:				
Equipment	3,956	-	-	3,956
Total Depreciable Capital Assets	3,956	-	-	3,956
Less Accumulated Depreciation				
Equipment	2,637	879	-	3,516
Total Accumulated Depreciation	2,637	879	-	3,516
Depreciable Capital Assets, Net	1,319	(879)	-	440
Total Capital Assets, Net	$ 6,062,497	$ 18,855,126	$ (1,069,750)	$ 23,847,873

Construction in progress includes $23,466,230 of costs related to the design and construction of the rural wastewater treatment plant and the water and interceptor lines to the plant. The plant will serve Ellsworth Air Force Base and the City of Box Elder and is being constructed on land that will be leased from the City of Box Elder. As of the date of this report, the property lease and overhead cost payment are still being negotiated with the City of Box Elder. The construction costs are being funded with grants and proceeds from the issuance of bonds (see Note 7). The total cost of the plant is expected to be $16 million including the clean-up of the sewer lagoons in Box Elder. Costs incurred on the plant were $15,839,456 as of June 30, 2014. The total cost of the interceptor line is expected to be $6,812,000 which will be paid for with bond proceeds. Costs incurred as of June 30, 2014 on the interceptor line were $6,463,874. The total cost of the water lines is expected to be $1,469,000. Costs incurred on the water lines as of June 30, 2014 were $1,162,900. Construction commitments have been signed for a majority of the remaining costs of the construction in progress.

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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. REPI funding available is $1 million, with $69,250 requested and included in accounts receivable at June 30, 2014 (Note 3). The Authority is required to match 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. Subsequent to year end, the Air Force awarded the Authority additional funding for the REPI program and the State of South Dakota has awarded matching funds. Due to difficulties in billing the Air Force, the remaining balance of the $1 million allocation ($117,750) and a new $2 million allocation, were paid to the Authority subsequent to year end, however properties have not yet been purchased with these funds.

As of June 30, 2014, the Authority has committed $150,000 of the outstanding bonds to clean up the existing lagoons. This clean up is to occur in the fall of 2014, subsequent to year-end.

Total depreciation expense for the year ended June 30, 2014 was $879.

NOTE 7 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2014:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due Within 1 Year
FLEX Loan	$ 428,725	$ -	$ (428,725)	$ -	$ -
NSP Loan	1,620,500	-	-	1,620,500	-
Bonds:					
SRF Series 2012A: Box Elder	1,662,784	4,873,733	-	6,536,517	261,162
SRF Series 2012B: USAF	1,662,784	4,873,733	-	6,536,517	261,162
SRF Series 2013D: USAF	-	571,608	-	571,608	-
SRF Series 2013C: Box Elder	-	571,608	-	571,608	-
SRF Series 2013B: Int. USAF	-	3,685,042	-	3,685,042	-
SRF Series 2013A: Int. Box Elder	-	1,228,347	-	1,228,347	-
Total Long-term Liabilities	$ 5,374,793	$ 15,804,071	$ (428,725)	$ 20,750,139	$ 522,324

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Outstanding debt obligations at June 30, 2014 are comprised of the following individual issues:

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
SRF Series 2012A - Box Elder, bearing interest at 2.5% with an administrative fee of .5% of the outstanding balance annually. Proceeds of up to $8 million can be advanced for the construction of the waste water treatment plant. Loan payments commence November 2014 and are to be paid quarterly until the balance is paid in full, or 20 years from the loan amortization date (November 2034). Debt payments will be paid with pledged user fees from operating the plant.	6,536,517
SRF Series 2012B - USAF, bearing interest at 2.5% with an administrative fee of .5% of the outstanding balance annually. Proceeds of up to $8 million can be advanced for the construction of the waste water treatment plant. Loan payments commence November 2014 and are to be paid quarterly until the balance is paid in full, or 20 years from the loan amortization date (November 2034). Debt payments will be paid with pledged user fees from operating the plant.	6,536,517
Consolidated Water Facilities Construction Program Loan Series 2013C - Box Elder, bearing interest at 3%. Proceeds of up to $734,500 can be advanced for the construction of a water main associated with the construction of the waste water treatment plant. Loan payments commence November 1, 2015 and are to be paid semi-annually until the balance is paid in full, or 10 years from the loan amortization date (November 2025). Debt payments will be paid with pledged user fees from operating the plant.	571,608
Consolidated Water Facilities Construction Program Loan Series 2013D - USAF, bearing interest at 3%. Proceeds of up to $734,500 can be advanced for the construction of a water main associated with the construction of the waste water treatment plant. Loan payments commence November 1, 2015 and are to be paid semi-annually until the balance is paid in full, or 10 years from the loan amortization date (November 2025). Debt payments will be paid with pledged user fees from operating the plant.	571,608

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

SRF Series 2013B - USAF, bearing interest at 2.5% with an administrative fee of .5% of the outstanding balance annually. Proceeds of up to $5,109,000, for the construction to connect Ellsworth Air Force Base to the SDEDA Regional Wastewater Treatment Facility. Loan payments commence May 2015 and are to be paid quarterly until the balance is paid in full, or 20 years from the loan amortization date (May 2035). Debt payments will be paid with pledged user fees from operating the plant.	3,685,042
SRF Series 2013A - Box Elder, bearing interest at 2.5% with an administrative fee of .5% of the outstanding balance annually. Proceeds of up to $1,703,000, for the construction to connect both Box Elder to the SDEDA Regional Wastewater Treatment Facility. Loan payments commence May 2015 and are to be paid quarterly until the balance is paid in full, or 20 years from the loan amortization date (May 2035). Debt payments will be paid with pledged user fees from operating the plant.	1,228,347
	$ 20,750,139

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

Year Ending June 30,	Principal	Interest
2015	$ 522,324	$ 639,791
2016	919,488	737,388
2017	1,011,905	675,447
2018	1,042,638	644,714
2019	1,074,305	613,047
2020-2024	5,805,341	2,555,532
2025-2029	5,954,514	1,626,617
2030-2034*	4,419,624	477,203
Total Payments	$ 20,750,139	$ 7,969,739

*Amortization schedule assumes the Authority will draw the authorized $24,281,000 on the SRF Bonds and the Consolidated Water Facilities Construction Program loans and the payments on the 2012 bonds will begin in November 2014 with the other bond payments beginning during the years ended in 2015 and 2016 as scheduled and be repaid within 10-20 years. Since the bonds were not fully drawn at June 30, 2014, but were subsequent to year end when scheduled payments are expected to begin, the amounts not drawn have been removed from the last few years of the amortization schedule.

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. The Authority will begin charging for services during the year ended June 30, 2015.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - BUDGETARY INFORMATION

There is no legal requirement for a General Fund budget.

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2014, South Dakota Ellsworth Development Authority implemented Governmental Accounting Standards Board (GASB) Statement 65. Statement 65 requires that intangibles such as debt issuance costs be expensed immediately, rather than capitalized. A prior period adjustment was made to remove the unamortized debt issue cost balance in the amount of $3,435. This adjustment reduced beginning net position by $3,435.

SUPPLEMENTARY INFORMATION

South Dakota Ellsworth Development Authority
Schedule of Operations Expenses
For the Year Ended June 30, 2014

	General Fund	Adjustments	Statement of Activities
Operations Expense			
Contracted Services	$ 316,302	$ -	$ 316,302
Professional Fees	163,374	-	163,374
Development Costs	113,663	1,320	114,983
Contract Operation Expenses	16,645	-	16,645
Travel	9,246	-	9,246
Depreciation and Amortization	-	879	879
	$ 619,230	$ 2,199	$ 621,429

See independent auditor's report.

OTHER REPORTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the **South Dakota Ellsworth Development Authority** (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 9, 2014.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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 were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 2014-001 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 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 finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. 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.

Board of Directors
South Dakota Ellsworth Development Authority

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

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

December 9, 2014

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

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

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of the South Dakota Ellsworth Development Authority (the Authority) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2014. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2014.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as 2014-001 to be a material weakness.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

December 9, 2014

SINGLE AUDIT SECTION

SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

A. Summary of Audit Results

1. The independent auditor's report expresses an unmodified opinion on the financial statements of the Authority.

2. One material weakness relating to the audit of the financial statements was reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.

4. One material weakness was disclosed during the audit of the major federal award program and is reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133.

5. The independent auditor's report on compliance for the major federal award program for the Authority expresses an unmodified opinion.

6. One finding relative to the major federal program for the Authority is reported in Part C of this schedule.

7. The program tested as a major program was: Capitalization Grants for Clean Water State Revolving Funds CFDA# 66.458.

8. The threshold used for distinguishing between Type A and B programs was $300,000.

9. The Department was not considered a low risk auditee under the criteria established in OMB Circular A-133.

B. Findings – Financial Statement Audit

Material Weakness

2014-001 Audit Adjustments and SEFA Preparation

Condition and Criteria: The Organization 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, a construction payable relating to June 2014 was recorded for $689,022, another invoice related to fiscal year 2014 was recorded for $5,750, donated land was recorded for $381,190, and the federal expenditures reported on the Schedule of Expenditures of Federal Awards were increased by $1,618,951.

Cause and Effect: The Organization did not perform a thorough review of journal entries or financial statements prepared by the third party accountant to detect the material errors.

Auditor's Recommendation: We suggest management review these entries and financial statements from the third party accountant prior to posting the entries to the accounting records to ensure that ending balances are correct.

Corrective Action Plan: Management agrees to review the accounting records to ensure that ending balances are correct.

SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

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

Finding 2014-001 reported under Part B above relates to the Authority's major federal program (CFDA #66.458) for the reporting compliance requirement.

Status of Prior Audit Findings

No findings were reported for the year ending June 30, 2013.

South Dakota Ellsworth Development Authority
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	CFDA Numbers	Amount
ENVIRONMENTAL PROTECTION AGENCY		
Pass-Through the S.D. Department of		
Environment and Natural Resources:		
Capitalization Grants for Clean Water State		
Revolving Funds (Note 2)	66.458	$ 9,587,039
TOTAL FEDERAL FINANCIAL ASSISTANCE		$ 9,587,039

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

NOTE 2: Amount represents the federal portion of loan draw-downs through June 30, 2014, as well as accrued expenses that will be submitted for loan draw-downs. The federal portion of outstanding loan balances at June 30, 2014 total $10,221,559.

See independent auditor's report.