SOUTH DAKOTA

EDFA FUND

ECONOMIC DEVELOPMENT FINANCE AUTHORITY

JUNE 30, 2016 • ANNUAL FINANCIAL REPORT

Economic Development Finance Authority Members

Terry Nelson, Chairman, is most recently retired as First Vice President of RBC Wealth Management in Rapid City. Mr. Nelson is a Certified Financial Planner (CFP) and Financial Consultant. He graduated from South Dakota State University with a Bachelor of Science in Psychology and Economics and later a Master of Science in Counseling. Mr. Nelson was previously a Realtor in Rapid City. Presently Mr. Nelson serves on The South Dakota Alumni Advocacy Board and on the SDSU Foundation. He is a past President of South Dakota Associated School Boards and is involved in numerous other civic organizations. The last three years he has been President of the Business Improvement District (BID) board which helps develop and finance Main Street Square Plaza in downtown Rapid City.

Gerrit Juffer, Vice-Chairman, is President of Juffer Inc., a financial service company with offices in Wagner, Parkston, Mitchell, Woonsocket, Huron, Tea, Irene and Sioux Falls, South Dakota, along with Blair, Thedford and Sargent, Nebraska. Mr. Juffer has 35 years of financial services experience, providing insurance, investment and real estate. Mr. Juffer is active in numerous social and civic organizations, as well as business ventures. Mr. Juffer attended the University of South Dakota, Midwest Bankers and the Graduate School of Banking.

Ronald Wagner, Secretary, currently works for First National Bank in Pierre as a Commercial Loan Officer. He graduated from Northern State University with a Bachelor of Science degree in Business Administration, where he majored in finance and minored in economics. From there he was a Claims Analyst with the State of South Dakota Petroleum Release Compensation Fund for five years and administered the SDHDA's HUD HOME Program as a Housing Development Officer with the South Dakota Housing Development Authority for 13 years. Mr. Wagner also serves on the Pierre Economic Development Corporation Board. He and his wife Lynda have three kids and two grandkids.

Casey Derflinger is currently the Deadwood Market Manager for First Interstate Bank. Mr. Derflinger has been in banking since 1983, and has been with First Interstate Bank since 1990. He graduated from South Dakota State University with degrees in Ag Business and Commercial Economics and is also a graduate of the Graduate School of Banking in Boulder, CO. Mr. Derflinger is active in numerous civic, social and non-profit organizations, including being the immediate past chairman of Black Hills Community Economic Development Corporation and past chair of the Ag/Commercial Credit Committee for the South Dakota Bankers Association.

Michael Keller recently retired June 15, 2014 from being Dean of the USD Business School, the Beacom School of Business. He earned a Bachelor of Science degree in Education in 1970 and later earned a JD in law in 1974, both from the University of South Dakota. Mr. Keller was the president and co-owner of Oddjobs.com and Executive Vice President of Chicago Title Insurance. He also held many executive positions within Wells Fargo Corporation. He previously served on the State Chamber committee for the State Giant Vision Contest.

Jody Engel is the Communications/Foundation Director for Winner Regional Healthcare Facility. She is a new resident to the town of Winner, SD and enjoys the opportunity her position provides to become involved in the community. Ms. Engel currently serves on the local Junior Achievement Board and is a member of Rotary. Most recently, she was at the Rapid City Convention & Visitors Bureau and prior to the CVB, she was CEO of a start-up manufacturing company and spent over 10 years in various management roles within the credit card banking business. She is a graduate of the University of South Dakota with a Bachelor of Science degree in Business Management. Ms. Engel and her husband, Will, have four children.

Stephen F. Jones is currently the General Manager of Claussen Nursery a South Dakota based company, and resides in rural Jefferson, South Dakota. At age 20, he became General Manager at Claussen Nursery, which was just a nursery center at the time. Since August 2007, the company has transformed into a Landscape Design, Landscape Consultation, Design Build Landscape Construction, General Landscape Contracting, Landscape Excavation, Property Management and Private Community Management endeavor. Mr. Jones is a young entrepreneur and his life goal is to continue to grow in the business world and continue to look for business opportunities in South Dakota.

Loan Portfolio

Economic Development Finance Authority Activity
Loans Approved Fiscal Year 2016

APEX Fund

COMPANY	APEX FUND PROJECTED JOBS	TOTAL LOAN AMOUNT	PROJECT AMOUNT	COMMUNITY
N/A				

FY 2016 Total: 0 loans

EDFA Bonds

COMPANY	BOND FUND PROJECTED JOBS	TOTAL LOAN AMOUNT	PROJECT AMOUNT	COMMUNITY
N/A				

FY 2016 Total: 0 loans

SOUTH DAKOTA ECONOMIC DEVELOPMENT FINANCE AUTHORITY

AUDIT REPORT

Fiscal Year Ended June 30, 2016

State of South Dakota
Department of Legislative Audit
427 South Chapelle
c/o 500 East Capitol
Pierre, SD 57501-5070

SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
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STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

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PIERRE SD 57501-5070
(605)773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

The Honorable Dennis Daugaard
Governor of South Dakota

and

Board of Directors
South Dakota Economic Development Finance Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the South Dakota Economic Development Finance Authority, a component unit of the State of South Dakota, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the South Dakota Economic Development Finance Authority's basic financial statements, and have issued our report thereon dated October 11, 2016.

Internal Control Over Financial Reporting

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

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

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

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Dakota Economic Development Finance Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Martin L. Guindon, CPA
Auditor General

October 11, 2016

STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

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(605)773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

Board of Directors
South Dakota Economic Development Finance Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Economic Development Finance Authority, a component unit of the State of South Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the South Dakota Economic Development Finance Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Economic Development Finance Authority as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Dakota Economic Development Finance Authority's basic financial statements. The listing of Economic Development Finance Authority Members and the schedule of Loan Portfolio: Loans Approved Fiscal Year 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016 on our consideration of the South Dakota Economic Development Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Economic Development Finance Authority's internal control over financial reporting and compliance.

Martin L. Guindon, CPA
Auditor General

October 11, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Economic Development Finance Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2016. This analysis should be read in conjunction with the Independent Auditor's Report, financial statements, and notes to the financial statements.

Financial Highlights as of June 30, 2016

- Total assets of the Authority decreased $6,251,980 (or 24.37%) primarily due to the decrease in loans receivable for the year ending June 30, 2016.
- Total liabilities of the Authority decreased by $6,296,337 (or 37.60%) primarily due to the decrease in bonds payable for the year ending June 30, 2016.
- No new bond issuances and early redemptions of $5,485,000 of bonds occurred in the year ending June 30, 2016.

Changes in Assets and Liabilities

	FY 2015	FY 2016	Increase (Decrease)	% Increase (Decrease)
Assets:				
Cash and Cash Equivalents	$ 1,938,757	$ 2,169,957	$ 231,200	11.93%
Investments	7,639,170	7,706,840	67,670	0.89
Loans Receivable	16,359,856	9,811,356	(6,548,500)	(40.03)
Allowance for Uncollectible Loans	(283,367)	(283,367)	0	0.00
Accounts Receivable	2,350	0	(2,350)	(100.00)
Total Assets	25,656,766	19,404,786	(6,251,980)	(24.37)
Liabilities:				
Bonds Payable	685,000	380,000	(305,000)	(44.53)
Accrued Interest Payable	219,346	120,267	(99,079)	(45.17)
Other	389,173	361,227	(27,946)	(7.18)
Loan Escrow Payable	845,041	845,729	688	0.08
Noncurrent Bonds Payable	14,605,000	8,740,000	(5,865,000)	(40.16)
Total Liabilities	16,743,560	10,447,223	(6,296,337)	(37.60)
Restricted Net Position	5,000,000	5,000,000	0	0.00
Unrestricted Net Position	3,913,206	3,957,563	44,357	1.13
Total Net Position	$ 8,913,206	$ 8,957,563	$ 44,357	0.50%

Change in Net Position

	FY 2015	FY 2016	Increase (Decrease)	% Increase (Decrease)
Revenues:				
Interest Income on Loans	$ 1,113,433	$ 781,017	$ (332,416)	(29.86)%
Investment Income	58,173	93,855	35,682	61.34
Total Revenues	1,171,606	874,872	(296,734)	(25.33)
Expenses:				
Interest Expense	1,090,839	777,680	(313,159)	(28.71)
Contractual Services	74,579	52,765	(21,814)	(29.25)
Provisions for Loan Loss	(150,000)	0	150,000	100.00
Refund to Institution	6,712	70	(6,642)	(98.96)
Total Expenses	1,022,130	830,515	(191,615)	(18.75)
Change in Net Position	$ 149,476	$ 44,357	$ (105,119)	(70.33)%

- The related decreases to the balances in loans receivable and debt outstanding resulted in the associated decreases to interest income on loans and interest expense.

Debt Administration:

- The Authority did not issue any tax-exempt bonds during fiscal year 2016.
- Outstanding bonds payable bear interest at rates ranging from 1.625% to 5.80% as of June 30, 2016. $685,000 of regularly scheduled bonds was redeemed during fiscal year 2016. Additionally, $5,485,000 of Series 2008 bonds was redeemed during fiscal year 2016.
- The Authority's bonds are rated AA by Standard and Poor's as of June 30, 2016.
- More detailed information about the Authority's debt can be found in Note 4, Long-Term Debt.

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

SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF NET POSITION
June 30, 2016

Assets	
Current Assets:	
Cash and Cash Equivalents (Note 2)	$ 2,160,065
Restricted Cash & Cash Equivalents (Note 2)	9,892
Total Cash and Cash Equivalents	2,169,957
Investments (Note 2)	860,746
Restricted Investments (Note 2)	3,564,530
Investment Interest Receivable	19,920
Loan Interest Receivable	38,579
Loans Receivable (Note 3)	460,971
Total Current Assets	7,114,703
Noncurrent Assets:	
Investments (Note 2)	993,855
Loans Receivable (Net of Allowance for Loan Loss) (Note 3)	9,028,440
Restricted Investments (Note 2)	2,267,788
Total Noncurrent Assets	12,290,083
Total Assets	19,404,786
Liabilities	
Current Liabilities:	
Accounts Payable	4,387
Accrued Interest Payable	115,880
Due To Other Governments (Note 5)	28,226
Bonds Payable (Note 4)	380,000
Total Current Liabilities	528,493
Noncurrent Liabilities:	
Due to Other Governments (Note 5)	333,001
Loan Escrow Payable	845,729
Bonds Payable (Note 4)	8,740,000
Total Noncurrent Liabilities	9,918,730
Total Liabilities	10,447,223
Net Position	
Restricted for Debt Service (Note 1)	5,000,000
Unrestricted	3,957,563
Total Net Position	$ 8,957,563

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

SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2016

Operating Revenue:	
Interest Income on Loans	$ 781,017
Total Operating Revenue	781,017
Operating Expenses:	
Contractual Services	52,765
Interest Expense	777,680
Refund to Institution	70
Total Operating Expenses	830,515
Operating Income (Loss)	(49,498)
Nonoperating Revenue:	
Investment Income	93,855
Total Nonoperating Revenue	93,855
Change in Net Position	44,357
Net Position at the Beginning of the Year	8,913,206
Net Position at End of Year	$ 8,957,563

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

SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016

Cash Flows from Operating Activities:		
Receipts for Pooled Loan Repayments	$ 6,873,512	
Receipts for APEX Loan Repayments	455,935	
Payments for Contractual Services	(62,792)	
Other Payments	(390)	
Net Cash Provided by Operating Activities		7,266,265
Cash Flows from Noncapital Financing Activities:		
Principal Paid on Revenue Bonds	(6,170,000)	
Interest Payments on Loans, Bonds and Notes	(864,381)	
Principal Paid on Loans to Rural Development	(27,946)	
Net Cash Used by Noncapital Financing Activities		(7,062,327)
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investment Securities	3,036,020	
Investment Income	67,730	
Purchase of Investment Securities	(3,076,488)	
Net Cash Provided by Investing Activities		27,262
Net Increase in Cash and Cash Equivalents During the Fiscal Year		231,200
Cash and Cash Equivalents at Beginning of Year		1,938,757
Cash and Cash Equivalents at End of Year		$ 2,169,957
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		$ (49,498)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Interest Expense	777,680	
Decrease/(Increase) in Assets:		
Loan Interest Receivable	27,837	
Loans Receivable	6,520,663	
Accounts Receivable	2,350	
Increase/(Decrease) in Liabilities:		
Accounts Payable	(12,377)	
Loan Escrow Payable	(390)	
Total Adjustments		7,315,763
Net Cash Provided by Operating Activities		$ 7,266,265

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

SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authorizing Legislation

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

B. Fund Accounting

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

C. Basis of Accounting

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

D. Cash and Cash Equivalents

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

E. Investments

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

F. Loan Escrow Payable

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

G. Amounts Held In Custody for Others

Represents assets that actually belong to the borrower but are maintained by the Authority in Project Fund Accounts. Moneys in these accounts are used to pay administrative expenses.

H. Net Position

Net Position is classified in the following three components:

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

I. Restricted Net Position

The bond indentures provide that certain reserve accounts be established. The reserve accounts, as of June 30, 2016, are comprised of restricted net position as follows:

Capital Reserve Account	$ 5,000,000

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

J. 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, 2016, the aggregate amount of stand-alone bond principal outstanding was

$7,785,142. The original issue amount of stand-alone bonds outstanding totaled $22,840,000.

K. 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.

L. 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.

M. Use of Estimates

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

2. CASH AND INVESTMENTS

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

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

	Fair Value
Unrestricted Cash and Investments	$ 4,014,666
Restricted Cash and Investments – Capital Reserve Account and Loan Reserve Accounts	5,842,210
Total Cash and Investments	$ 9,856,876

Custodial Credit Risk:
The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value on investment securities and deposits that are in the possession of an outside party. The Authority does not have a policy in place for custodial credit risk. Investments securities totaling $2,169,911 were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Authority's name.

Interest Rate Risk:
The Authority limits the maturities of investments for its restricted accounts (all accounts other than the General Account) to terms of two years or less from the date of investment. As of June 30, 2016, the Authority had the following investments:

		Investment Maturities (in Years)		
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**
U.S. Treasury Note	$ 450,980	$ 300,558	$ 150,422	$ 0
U.S. Government Agencies*	995,111	995,111	0	0
Certificates of Deposit	6,240,828	3,129,607	2,804,702	306,519
Total	$ 7,686,919	$ 4,425,276	$ 2,955,124	$ 306,519

* U.S. Government Agency securities include Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), and Federal Home Loan Mortgage Global (FHLMG).

Credit Risk:
The Investment Management Policy of the Authority limits investments in Corporate Bonds to those rated in either of the two highest rating categories by either Moody's Investors Service or Standard & Poor's Corporation.

As of June 30, 2016, all investments held by the Authority were 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 any concentration of credit risk, excluding any government issues.

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

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

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

First National Bank (FNB), which serves as trustee, uses a pricing service, Standard and Poor's Securities Evaluation Incorporated (SPSE), to value investments. SPSE uses market approach pricing which utilizes models and pricing systems as well as mathematical tools and pricing analyst judgment. All investments are priced by this service, which is not quoted prices in an active market, but rather significant other observable inputs; therefore, the investments in U.S. Treasury Notes and U.S. Government Agencies are categorized as Level 2.

3. LOANS RECEIVABLE

Change in loans receivable for the year ending June 30, 2016 consisted of the following:

Beginning Balance	$ 16,293,440
Pooled Loans Principal Payments	(6,093,750)
APEX Program Loan Principal Payments	(426,912)
Loans Receivable – Before Allowance	9,772,778
Allowance for Loan Loss applicable	
to the Pooled Loan Program	(236,696)
to the APEX Loan Program	(46,671)
TOTAL LOANS RECEIVABLE – Net of Allowance	$ 9,489,411

The Allowance for Loan Loss applicable to the Pooled Loans is 1% for the year ending June 30, 2016.

The Agricultural Processing and Export (APEX) Program was created in 1988 when loans (Note 5) from Rural Development (RD) and Revolving Economic Development and Initiative Fund were issued to the Authority. The APEX loan program is structured to encourage processors to add value to South Dakota's raw agricultural products, export them outside the state, and to locate industry in rural communities.

4. LONG-TERM DEBT

Tax exempt debt in the form of revenue bonds was issued by the Authority. The following represents the changes in revenue bonds for the pooled bond program as of June 30, 2016:

Beginning Balance	$ 15,290,000
Bonds Retired	(6,170,000)
Ending Balance	$ 9,120,000
Due Within One Year	$ 380,000

The following are the revenue bonds outstanding for the pooled bond program at June 30, 2016:

Issue	Interest Rate	Maturity Through	Principal Balance
Series 2013A			
Serial Bonds	2.25-4.00%	2021	$ 805,000
Term Bonds	1.625-5.80%	2033	8,315,000
			9,120,000
Total			$ 9,120,000

The following is a schedule of future bond payments and future interest payments remaining at June 30, 2016:

Year Ended June 30	Principal	Interest	Total Principal and Interest
2017	$ 380,000	$ 460,233	$ 840,233
2018	385,000	454,058	839,058
2019	395,000	445,395	840,395
2020	405,000	433,051	838,051
2021	420,000	420,395	840,395
2022-2026	2,410,000	1,788,623	4,198,623
2027-2031	3,180,000	1,022,250	4,202,250
2032-2033	1,545,000	135,720	1,680,720
Total	$ 9,120,000	$ 5,159,725	$ 14,279,725

5. DUE TO'S

Due To's reported on the balance sheet consist of loans from Rural Economic and Community Development (RECD). These loans were used to make loans to APEX recipients. Due To's reported on the Statement of Net Position consist of the following:

Beginning Balance	$ 389,173
Payments to RECD	(27,946)
TOTAL DUE TO'S	$ 361,227

CFDA Number: 10.767
Federal Agency: Rural Business & Cooperative Development Service
Program: Intermediary Relending Program
State Agency: Tourism & State Development
Outstanding Loans: $361,227

The Governor's Office of Economic Development, through the Authority, participates in the APEX Loan Program with funds obtained from RECD Intermediary Relending Program (IRP). The Authority has entered into loan agreements with the RECD in the amount of $3,000,000. The Authority makes loans to small businesses and draws down federal funds

from the loan with the RECD to cover 70% of the loans made to small businesses. As of June 30, 2016, the Authority had $361,227 in outstanding loans from RECD.

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 products liability) through the State's Public Entity Pool for Liability Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

SOUTH DAKOTA

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

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