



**SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED JUNE 30, 2016



**Ketel Thorstenson, LLP**  
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**SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY**

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **South Dakota Ellsworth Development Authority** (the Authority), a component unit of the State of South Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016 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  
Certified Public Accountants

October 19, 2016

## FINANCIAL STATEMENTS

**South Dakota Ellsworth Development Authority**  
**Statement of Net Position**  
**June 30, 2016**

	Governmental Activities	Business-type Activities	Total Primary Government
<b>ASSETS</b>			
Cash	\$ 2,450,466	\$ 297,028	\$ 2,747,494
Accounts Receivable	65,409	214,610	280,019
Long-term Notes Receivable	175,000	-	175,000
Contract for Deed	86,000	-	86,000
Capital Credits	-	10,714	10,714
Assets Held for Development, Net	4,978,320	-	4,978,320
Land & Easements	556,232	-	556,232
Buildings	-	17,199,375	17,199,375
Improvements	-	6,920,781	6,920,781
Equipment	3,956	-	3,956
Accumulated Depreciation	<u>(3,956)</u>	<u>(1,619,438)</u>	<u>(1,623,394)</u>
<b>TOTAL ASSETS</b>	<u>8,311,427</u>	<u>23,023,070</u>	<u>31,334,497</u>
<b>LIABILITIES</b>			
Accounts Payable	18,343	50,202	68,545
Accrued Interest	-	87,981	87,981
Unearned Revenue	1,503,689	-	1,503,689
Long-term Debt:			
Due in One Year	-	937,350	937,350
Due in More than One Year	<u>1,620,500</u>	<u>22,193,329</u>	<u>23,813,829</u>
<b>TOTAL LIABILITIES</b>	<u>3,142,532</u>	<u>23,268,862</u>	<u>26,411,394</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	556,232	640,463	1,196,695
Unrestricted (Deficit)	<u>4,612,663</u>	<u>(886,255)</u>	<u>3,726,408</u>
<b>TOTAL NET POSITION</b>	<u>\$ 5,168,895</u>	<u>\$ (245,792)</u>	<u>\$ 4,923,103</u>

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority**  
**Statement of Activities**  
**For the Year Ended June 30, 2016**

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Functions/Programs	Expenses	Charges for Services
<b>GOVERNMENTAL ACTIVITIES</b>		
Compatible Use	\$ 1,002,088	\$ 92,628
Total Governmental Activities	<u>1,002,088</u>	<u>92,628</u>
<b>BUSINESS-TYPE ACTIVITIES</b>		
Waste Water Treatment	2,344,348	2,546,561
Total Business-type Activities	<u>2,344,348</u>	<u>2,546,561</u>
Total Primary Government	<u>\$ 3,346,436</u>	<u>\$ 2,639,189</u>

The accompanying notes are an integral part of this statement.

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Primary Government		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$ 699,840	\$ 3,021,552	\$ 2,811,932	\$ -	\$ 2,811,932
<u>699,840</u>	<u>3,021,552</u>	<u>2,811,932</u>	<u>-</u>	<u>2,811,932</u>
-	-	-	202,213	202,213
-	-	-	<u>202,213</u>	<u>202,213</u>
<u>\$ 699,840</u>	<u>\$ 3,021,552</u>	<u>2,811,932</u>	<u>202,213</u>	<u>3,014,145</u>
<b>GENERAL REVENUES</b>				
Unrestricted Investment Earnings		3,399	7,679	11,078
Other General Revenues		396	-	396
Impairment of Property		(2,011,835)	-	(2,011,835)
Total General Revenues		<u>(2,008,040)</u>	<u>7,679</u>	<u>(2,000,361)</u>
<b>CHANGE IN NET POSITION</b>		803,892	209,892	1,013,784
<b>NET POSITION - BEGINNING</b>		<u>4,365,003</u>	<u>(455,684)</u>	<u>3,909,319</u>
<b>NET POSITION - ENDING</b>		<u>\$ 5,168,895</u>	<u>\$ (245,792)</u>	<u>\$ 4,923,103</u>

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority**  
**Balance Sheet - General Fund**  
**June 30, 2016**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash	\$ 2,450,466
Accounts Receivable	65,409
Long-term Notes Receivable	175,000
Contract for Deed	86,000
Assets Held for Development, Net	<u>4,978,320</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 7,755,195</u></u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 18,343
Unearned Revenue	<u>1,503,689</u>
<b>TOTAL LIABILITIES</b>	<u>1,522,032</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Contributions Not "Available"	<u>4,420,770</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>4,420,770</u>
<b>FUND BALANCE</b>	
Nonspendable:	
Noncurrent Notes Receivable	175,000
Contract for Deed	86,000
Assets Held for Development, Net of Deferred Inflows of Resources	557,550
Unassigned	<u>993,843</u>
<b>TOTAL FUND BALANCE</b>	<u>1,812,393</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u><u>\$ 7,755,195</u></u>

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority  
Reconciliation of the Governmental Fund Balance Sheet  
to the Statement of Net Position  
June 30, 2016**

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Total Governmental Fund Balance	\$ 1,812,393
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.	556,232
Revenue from donated land held for development is not available to pay current period expenditures and therefore, is a deferred inflow of resources in the General Fund.	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.	<u>(1,620,500)</u>
Net Position of Governmental Activities	<u>\$ 5,168,895</u>

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority  
Statement of Revenues, Expenditures and Changes in  
Fund Balance - General Fund  
For the Year Ended June 30, 2016**

	<u>General Fund</u>
<b>REVENUES</b>	
Federal Revenue	
Operating Grants	\$ 199,840
State Revenue:	
Operating Grants	300,000
Capital Grants	3,021,552
Local Revenue:	
Operating Contributions from Private Parties	200,000
Charges for Services	92,628
Investment Income	3,399
Miscellaneous	396
Total Revenues	3,817,815
<b>EXPENDITURES</b>	
Compatible Use	1,002,088
Capital Outlays	2,167,984
Total Expenditures	3,170,072
Excess of Revenues Over Expenditures	647,743
<b>OTHER FINANCING SOURCES</b>	
Proceeds from Sale of Property	168,131
<b>CHANGE IN FUND BALANCES</b>	815,874
<b>FUND BALANCES - BEGINNING</b>	996,519
<b>FUND BALANCES - ENDING</b>	\$ 1,812,393

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority**  
**Reconciliation of Governmental Fund Statement of Revenues,**  
**Expenditures and Changes in Fund Balance to the Statement of Activities**  
**For the Year Ended June 30, 2016**

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Total Governmental Fund Net Change in Fund Balances \$ 815,874

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. 2,167,984

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. (2,179,966)

Change in Net Position of Governmental Activities \$ 803,892

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority**  
**Statement of Net Position - Proprietary Fund**  
**June 30, 2016**

	<u>Waste Water Treatment Plant</u>
<b>ASSETS</b>	
Current Assets	
Cash	\$ 297,028
Accounts Receivable	<u>214,610</u>
Total Current Assets	<u>511,638</u>
Capital Assets	
Buildings	17,199,375
Improvements	6,920,781
Accumulated Depreciation	<u>(1,619,438)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>22,500,718</u>
Noncurrent Assets	
Capital Credits	<u>10,714</u>
<b>TOTAL ASSETS</b>	<u><u>23,023,070</u></u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable	50,202
Accrued Interest	87,981
Current Maturities of Long-term Debt	<u>937,350</u>
Total Current Liabilities	1,075,533
Long-term Liabilities	<u>22,193,329</u>
<b>TOTAL LIABILITIES</b>	<u><u>23,268,862</u></u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	640,463
Unrestricted (Deficit)	<u>(886,255)</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ (245,792)</u></u>

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority  
Statement of Revenues, Expenditures and Changes in  
Fund Net Position - Proprietary Fund  
For the Year Ended June 30, 2016**

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	<u>Waste Water Treatment Plant</u>
<b>OPERATING REVENUES</b>	
Revenues Pledged to Service Long-term Debt:	
Charges for Services	\$ 2,546,561
<b>TOTAL OPERATING REVENUES</b>	<u>2,546,561</u>
<b>OPERATING EXPENSES</b>	
Contracted Services	616,351
Other Expenses	179,428
Depreciation	<u>850,152</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>1,645,931</u>
Operating Income	<u>900,630</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest Expense	(698,417)
Interest Income	<u>7,679</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(690,738)</u>
Increase in Net Position	209,892
<b>NET POSITION - BEGINNING</b>	<u>(455,684)</u>
<b>NET POSITION (DEFICIT) - ENDING</b>	<u>\$ (245,792)</u>

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended June 30, 2016**

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	Waste Water Treatment Plant
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Receipts from Customers	\$ 2,640,576
Cash Payments to Vendors for Goods and Services	<u>(950,993)</u>
Net Cash Provided by Operating Activities	<u>1,689,583</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of Capital Assets	(14,169)
Interest Paid on Capital Debt	(754,470)
Principal Paid on Capital Debt	<u>(872,086)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,640,725)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	48,858
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>248,170</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 297,028</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income	\$ 900,630
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	850,152
Change in Assets and Liabilities:	
Accounts Receivable	94,015
Prepaid Expenses	2,091
Accounts Payable	<u>(157,305)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 1,689,583</u></u>
<b>NONCASH CAPITAL AND FINANCING ACTIVITIES</b>	
Acquisition of Capital Assets with Capital Debt Proceeds	<u><u>\$ 313,505</u></u>

The accompanying notes are an integral part of this statement.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

South Dakota Ellsworth Development Authority (the Authority) is a component unit of the State of South Dakota and is exempt from federal income taxes. The Authority was created under SDCL 1-16J for the purpose of protecting and promoting the economic impact of Ellsworth Air Force Base and associated industry, and to promote the health and safety of those living or working near the base.

In conformity with Governmental Accounting and Financial Reporting Standards, South Dakota Ellsworth Development Authority is the reporting entity for financial reporting purposes. The Authority is governed by a board of seven members that are appointed by the Governor of the State of South Dakota. The financial statements of the Authority include all funds that are controlled by the Board. The Board has the authority to exercise all powers and limitations set forth in SDCL 1-16J. The Authority does not have to prepare a budget that is subject to approval by the State of South Dakota, and the Authority can issue debt without the permission of the State of South Dakota.

B. Government-wide and Fund Financial Statements

Government-wide Statements: The Statement of Net Position and the Statement of Activities display various information about the Authority. These statements include the financial activities of the overall organization. Governmental activities are generally financed through grants, debt proceeds and other non-exchange transactions. Business-type Activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Authority and for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund financial statements: the fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenue, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

A fund is considered major if it is in the primary operating funds of the Authority or it meets the following criteria:

1. Total assets, deferred outflows of resources, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, deferred outflows of resources, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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

The funds of the Authority and their respective fund types are described below:

**Governmental Fund:**

General Fund - The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. This is the only governmental fund of the Authority. This is a major fund.

**Proprietary Fund:**

Waste Water Treatment Plant Fund - Financed primarily by user charges. This fund accounts for the operation of the sanitary sewer system and related facilities, which became operational in July 2014. This is the only proprietary fund of the Authority. This is a major fund.

The Authority does not have fiduciary funds.

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "how" transactions are recorded in the financial statements. Basis of accounting refers to "when" revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fund Financial Statements: Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period ("availability period"). Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due. Proprietary funds apply the economic resources measurement focus and the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

**D. Use of Estimates**

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

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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

E. Cash and Cash Equivalents

The Authority pools its cash resources for deposit purposes. The proprietary fund essentially has access to its cash resources on demand. Accordingly, all reported deposit balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows. The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Notes Receivable

Notes receivable are comprised of mortgage loans collateralized by the underlying real property pledged by the borrowers in accordance with the terms of the mortgage loans. The mortgage loans are carried at cost, which includes unpaid principal balances and an allowance for loan losses.

The Authority maintains an allowance for loan losses based on management's estimate of credit losses inherent in the Authority's loans receivable. The estimation of the allowance is based on a variety of factors including current economic conditions, delinquency trends, and the physical inspections of properties. No allowance has been recorded at June 30, 2016, as all loans were considered collectible.

G. Contract for Deed

The contract for deed resulted from a sale of property that occurred in fiscal year 2015. The contract for deed is carried at cost, which includes the unpaid principal balance and any accrued interest. As of June 30, 2016, the contract for deed was considered collectible; therefore, an allowance was not established.

H. Capital Credits

The Authority earns capital credits from a rural utility cooperative. The cooperative calculates the amount of capital credits earned by the Authority based on utility usage. Annually, the cooperatives determine an amount of capital credits to be distributed to the Authority from the Authority's accumulation of capital credits from past years. The timeline of distribution of capital credits is unknown. The Authority records the accumulation of capital credits at cost as reported by the cooperative.

I. 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.

J. 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.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government wide statements, capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Capital asset acquisitions in excess of \$1,000 and having a useful life of more than one year are capitalized at cost and updated for additions and retirements during the year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are reviewed at least annually for impairment and reduced by an impairment loss when the market value, based on appraisals obtained, is less than the carrying value.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on the proprietary fund's Statement of Net Position.

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

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

Land and easements are inexhaustible assets and are not depreciated.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

**K. Long-term Liabilities**

Long-term liabilities are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of notes and bonds payable. In the governmental fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Debt obligations that are due in one year and are expected to be paid with current resources, and short-term obligations that are associated with assets held for development are reported as liabilities in the fund. In the proprietary fund statements, debt is accounted for on the accrual basis, the same as in the government-wide statements.

**L. Unearned Revenue**

At June 30, 2016, unearned revenues includes funding received in advance of being earned by the Authority.

**M. 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, 2016, deferred inflows of resources represent contributed development assets which are not expected to be sold soon enough to pay liabilities of the current period.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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

**N. Program Revenues**

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

- a. Charges for services - These arise from charge to customers, applicants, or others who purchase, use, or directly benefits from the goods, services, or privileges provided, or are otherwise directly affected by the services.
- b. Operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are to be used for operations of the Authority.
- c. Capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in the operations of the Authority.

**O. Proprietary Fund Revenue and Expense Classifications**

In the proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

**P. Net Position, Fund Balance, and Use of Restricted Resources**

*Net Position – Governmental and Business-type Activities and Proprietary Fund*

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

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

*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.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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

*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, 2016 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.

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, 2016, 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, 2016 in the governmental fund and governmental activities consists of amounts due from unrelated parties for leasing various parcels of land of the Authority.

For the proprietary fund and business-type activities, accounts receivable at June 30, 2016 consist of usage charges and reimbursement for operations due from the United State Air Force and the City of Box Elder for the waste water treatment plant. The United State Air Force and City of Box Elder also are charged monthly for future debt obligations related to the construction of the waste water treatment plant, which is included in charges for services.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 3 - ACCOUNTS RECEIVABLE (CONTINUED)**

Accounts receivable at June 30, 2016 are considered fully collectible, as such, no allowance has been recorded.

**NOTE 4 - ASSETS HELD FOR DEVELOPMENT**

Assets held for development include several parcels of land that were donated to the Authority by the United States Air Force. The value of these properties was determined based on recent land sales in the area at a per acre value. The total value of land held by the Authority at June 30, 2016 was \$4,420,770. Revenue has not been recognized in the fund financial statements related to these donations, as the sales of the properties are not expected to be completed in time to provide current financial resources to the Authority. Since the resources are not available, the donations have been included in deferred inflows of resources in the fund financial statements.

Assets held for development also included an acreage (Freedom Estates) that has been subdivided for housing and commercial development. A portion of this acreage was sold during the year ended June 30, 2015 under contract for deed as discussed in Note 6. Freedom Estates also includes land valued at \$557,550 which will be sold as part of future residential and commercial development of the property.

**NOTE 5 - NOTES RECEIVABLE**

Notes receivable consist of second mortgages on seven low-income homes that were constructed and sold in the Freedom Estates Development (see Note 4). These homes were restricted by funding sources for sale to low-income individuals. Not all of the purchasers qualified for financing for the entire \$125,000 purchase price of each home so the Authority 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.

At June 30, 2016, notes receivable outstanding totaled \$175,000 and were represented by mortgages with seven borrowers. Since these long-term notes are not available, they are presented as a component of nonspendable fund balance within the General Fund.

**NOTE 6 - CONTRACT FOR DEED**

As discussed in Note 4, this contract for deed resulted from the sale of the Freedom Estates Phase II. The outstanding balance of the contract for deed at June 30, 2016 was \$86,000. A principal payment of \$14,000 in addition to 4% interest on the outstanding balance is due August 2016. The remaining principal will be paid in \$24,000 annual installments due in August of each year beginning in 2017 until maturity in August 2019, unless the buyer sells additional lots, at which time the payment schedule will be revised. Interest will also be due when principal is paid at 4% of the outstanding balance. Since the contract for deed is not available, it is presented as a component of nonspendable fund balance within the General Fund.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Impairments/ Deletions	Balance June 30, 2016
<b>Governmental Activities</b>				
Nondepreciable Capital Assets:				
Land & Easements	\$ 568,214	\$ 2,167,984	\$ (2,179,966)	\$ 556,232
Total Nondepreciable Assets	<u>568,214</u>	<u>2,167,984</u>	<u>(2,179,966)</u>	<u>556,232</u>
Capital Assets Being Depreciated:				
Equipment	3,956	-	-	3,956
Total Depreciable Capital Assets	<u>3,956</u>	<u>-</u>	<u>-</u>	<u>3,956</u>
Less Accumulated Depreciation				
Equipment	3,956	-	-	3,956
Total Accumulated Depreciation	<u>3,956</u>	<u>-</u>	<u>-</u>	<u>3,956</u>
Depreciable Capital Assets, Net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, Net	<u>\$ 568,214</u>	<u>\$ 2,167,984</u>	<u>\$ (2,179,966)</u>	<u>\$ 556,232</u>
<b>Business-type Activities</b>				
Capital Assets Being Depreciated:				
Buildings	\$ 16,871,701	\$ 327,674	\$ -	\$ 17,199,375
Improvements	<u>6,920,781</u>	<u>-</u>	<u>-</u>	<u>6,920,781</u>
Total Depreciable Capital Assets	<u>23,792,482</u>	<u>327,674</u>	<u>-</u>	<u>24,120,156</u>
Less Accumulated Depreciation				
Buildings	515,524	573,312	-	1,088,836
Improvements	<u>253,762</u>	<u>276,840</u>	<u>-</u>	<u>530,602</u>
Total Accumulated Depreciation	<u>769,286</u>	<u>850,152</u>	<u>-</u>	<u>1,619,438</u>
Depreciable Capital Assets, Net	<u>23,023,196</u>	<u>(522,478)</u>	<u>-</u>	<u>22,500,718</u>
Total Capital Assets, Net	<u>\$ 23,023,196</u>	<u>\$ (522,478)</u>	<u>\$ -</u>	<u>\$ 22,500,718</u>

Depreciation in the amount of \$850,152 was charged to the waste water treatment plant proprietary fund.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 - CAPITAL ASSETS (CONTINUED)**

The waste water treatment plant is 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.

Land and easements include land or easements owned and monitored by the Authority in order for the land use to remain consistent with the needs of Ellsworth Air Force Base. The land and easements are recorded at the lower of cost or appraised value and are not depreciated. Land purchased by the Authority under the Readiness and Environmental Protection Integration Program (REPI) has easements sold to the United States Air Force at the Yellowbook appraised value of each property. The Authority is providing 25 percent matching funds for the REPI program. Properties purchased under the REPI program are deemed to have little or no value, and are adjusted to \$1 at the time the easement is granted to the Air Force. Other easements purchased outside the REPI program are being used as the match for the program and have also been adjusted to \$1, as there is little to no value for the land. Some of the easements in the REPI program were adjusted to a total value of \$175,001 based on the assessed easement value. During the year ended June 30, 2016, the Air Force awarded the Authority an additional \$1.391 million for the REPI program. Not all of the REPI program funds were expended by June 30, 2016 and unexpended amounts are included in unearned revenue.

**NOTE 8 - LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2016:

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016	Amounts Due Within 1 Year
Governmental Activities:					
NSP Loan	\$ 1,620,500	\$ -	\$ -	\$ 1,620,500	\$ -
Total Governmental Activities	<u>1,620,500</u>	<u>-</u>	<u>-</u>	<u>1,620,500</u>	<u>-</u>
Business-type Activities:					
Bonds:					
SRF Series 2012A: Box Elder	7,731,919	128,962	(296,700)	7,564,181	310,822
SRF Series 2012B: USAF	7,731,919	128,962	(296,700)	7,564,181	310,822
SRF Series 2013D: USAF	727,264	7,236	(13,402)	721,098	27,687
SRF Series 2013C: Box Elder	686,158	48,345	(12,644)	721,859	27,714
SRF Series 2013B: Int. USAF	5,109,000	-	(189,480)	4,919,520	195,229
SRF Series 2013A: Int. Box Elder	1,703,000	-	(63,160)	1,639,840	65,076
Total Business-type Activities	<u>23,689,260</u>	<u>313,505</u>	<u>(872,086)</u>	<u>23,130,679</u>	<u>937,350</u>
Total Long-term Liabilities	<u>\$ 25,309,760</u>	<u>\$ 313,505</u>	<u>\$ (872,086)</u>	<u>\$ 24,751,179</u>	<u>\$ 937,350</u>

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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

Outstanding debt obligations at June 30, 2016 are comprised of the following individual issues:

Governmental Activities:

NSP Loan, payable to SDHDA, non interest bearing, will be forgiven in 2033 if restrictive covenants related to providing low income housing on Freedom Estates homes is maintained for the 20 year duration. Secured by Freedom Estates (Note 4). \$ 1,620,500

Total Governmental Activities \$ 1,620,500

Business-type Activities:

SRF Series 2012A - Box Elder, bonds requiring quarterly payments of \$131,294 that began May 15, 2015 until maturity on November 15, 2034. Payments include interest at 2.5% and an administrative fee of .5%. Debt payments will be paid with pledged user fees from operating the plant. \$ 7,564,181

SRF Series 2012B - USAF, bonds requiring quarterly payments of \$131,294 that began May 15, 2015 until maturity on November 15, 2034. Payments include interest at 2.5% and an administrative fee of .5%. Debt payments will be paid with pledged user fees from operating the plant. 7,564,181

Consolidated Water Facilities Construction Program Loan Series 2013C - Box Elder, bonds requiring semi-annual payments of \$24,583 that began November 1, 2015 until maturity on November 1, 2035. Payments include interest at 3%. Debt payments will be paid with pledged user fees from operating the plant. 721,859

Consolidated Water Facilities Construction Program Loan Series 2013D - USAF, bonds requiring semi-annual payments of \$24,557 that began November 1, 2015 until maturity on November 1, 2035. Payments include interest at 3%. Debt payments will be paid with pledged user fees from operating the plant. 721,098

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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

SRF Series 2013B - USAF, bonds requiring quarterly payments of \$85,158 beginning August 15, 2015 until maturity on May 15, 2035. Payments include interest at 2.5% and an administrative fee of .5%. Debt payments will be paid with pledged user fees from operating the plant. 4,919,520

SRF Series 2013A - Box Elder, bonds requiring quarterly payments of \$28,386 beginning August 15, 2015 until maturity on May 15, 2035. Payments include interest at 2.5% and an administrative fee of .5%. Debt payments will be paid with pledged user fees from operating the plant. 1,639,840

Total Business-type Activities \$ 23,130,679

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

Governmental Activities:

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

Business-type Activities:

Years Ending June 30,	Principal	Interest	Total
2017	\$ 937,350	\$ 683,648	\$ 1,620,998
2018	965,783	655,216	1,620,999
2019	995,077	625,921	1,620,998
2020	1,025,260	595,738	1,620,998
2021	1,056,359	564,639	1,620,998
2022 - 2026	5,782,309	2,322,682	8,104,991
2027 - 2031	6,714,136	1,390,886	8,105,022
2032 - 2036	5,654,405	344,423	5,998,828
	<u>\$ 23,130,679</u>	<u>\$ 7,183,153</u>	<u>\$ 30,313,832</u>

The SRF debt agreements require the Authority to maintain a rate covenant of net revenues available for debt service of at least 110% of debt service requirements as discussed in Note 9.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 9 - PLEDGE OF FUTURE REVENUE**

As discussed in Note 8, the Authority has pledged future user charges related to the waste water treatment plant fund. The pledged user charges provide security under various bond agreements. Proceeds from the loans provided financing for the construction of the waste water treatment plant. One hundred percent of the user charges related to the waste water treatment plant fund have been pledged through the maturity dates of each application bond as listed in Note 8. The total principal and interest remaining to be paid on the bonds, which represents the approximate amount of each pledge, along with a comparison of the pledged revenue recognized during the year to the principal and interest requirements is as follows:

Principal and Interest Remaining	\$	30,313,832
Pledged Revenue Recognized		2,546,561
Principal and Interest Requirements		1,570,503

**NOTE 10 - WASTE WATER TREATMENT PLANT FUND CHARGES FOR SERVICES**

Customers of the waste water treatment plant fund have negotiated user rates with the Authority and are charged for usage of the treatment plant. Additionally, customers are responsible for their respective share of the operating costs of the treatment plant and up to 20% of the operating costs to cover administrative and overhead costs of the Authority. Customers are also charged for the debt and interest payments related to the treatment plant. The debt and total interest related to the waste water treatment plant is amortized over 20 years and divided into equal monthly payments. The amount of the debt payments allocated to each customer is based on the customer's predetermined usage of capital assets for which the debt was acquired.

**NOTE 11 - RISK MANAGEMENT**

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

The Authority joined the South Dakota Authority Captive Insurance Company, LLC (SDACIC), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota Authorities. The objective of the SDACIC is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Authority's responsibility is to promptly report to and cooperate with the SDACIC to resolve any incident which could result in a claim being made or by or against the Authority. The Authority pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDACIC member, based on their exposure or type of coverage. The District pays an annual premium to the pool to provide coverage for property insurance, general liability, automobile, crime, boiler and machinery, umbrella liability, and errors and omissions. The agreement with the SDACIC provides that the above coverage will be provided with up to a \$5,000,000 limit on liability coverage and directors' and officers' coverage. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of deductibles. As of June 30, 2016 the District carried the following deductibles of \$25,000 for each coverage type.

**South Dakota Ellsworth Development Authority**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 12 - CONCENTRATIONS**

All charges for services reported in the waste water treatment plant fund are generated from two customers: the United States Air Force (51%) and the City of Box Elder (49%). Accounts receivable for the waste water treatment plant fund were also comprised of balances from the United States Air Force (56%) and the City of Box Elder (44%). Operations of the waste water treatment plant fund would be significantly impacted if either customer were to cease to exist or if receivables became uncollectible.

**NOTE 13 - BUDGETARY INFORMATION**

There is no legal requirement for a General Fund budget.

**NOTE 14 - CONTRACTS**

The Authority has a contract with an unrelated third party to operate and maintain the waste water treatment plant. The contract is effective from July 2014 through July 2019. The contract may be terminated at any time with 90 days written notice. The Authority pays the contractor each month based on hourly rates of the individuals working and reimbursement of actual costs incurred for certain expenses. The expenses incurred under this contract for the year ended June 30, 2016 were \$487,617.

**NOTE 15 - SUBSEQUENT EVENTS**

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

## SUPPLEMENTARY INFORMATION

**South Dakota Ellsworth Development Authority  
Schedule of Operations Expenses  
For the Year Ended June 30, 2016**

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	General Fund	Adjustments	Statement of Activities
Operations Expense			
Contracted Services	\$ 375,510	\$ -	\$ 375,510
Professional Fees	390,395	-	390,395
Development Costs	208,160	-	208,160
Contract Operation Expenses	16,120	-	16,120
Travel	11,841	-	11,841
Other	62	-	62
	\$ 1,002,088	\$ -	\$ 1,002,088

## 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, the business-type activities, and each major fund of the **South Dakota Ellsworth Development Authority** (the Authority) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 19, 2016.

### **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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, 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 as 2016-001 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*.

Board of Directors  
South Dakota Ellsworth Development Authority

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**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 Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

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



KETEL THORSTENSON, LLP  
Certified Public Accountants

October 19, 2016

## **SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY**

### **SCHEDULE OF FINDINGS FOR THE YEAR ENDED JUNE 30, 2016**

#### **A. Status of Prior Audit Findings**

None

#### **B. Current Year Audit Findings**

##### **2016-001: Material Weakness – Audit Adjustment**

**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, we noted deferred revenue was understated by \$1,312,832.

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

**Auditor's Recommendation:** We suggest this spreadsheet be saved by year in order to ensure a proper cut-off for deferred revenue calculations. Although a cumulative spreadsheet is necessary to properly track the REPI activity under the five-year program, saving a static copy at each fiscal year-end would prevent any inadvertent errors in the timing of revenue recognition.

**Management's Response:**

- (1) The REPI Program is designed and funded on a five-year utilization cycle; as such, SDEDA tracks REPI allowable transaction costs to include property closings as they occur and not based on a specific Fiscal Year. SDEDA is in full compliance with the DOD REPI Program and South Dakota GOED matching grant agreements; and has been cited on multiple occasions as a benchmark of success at both the DOD and US Air Force levels.
- (2) In this case, the property closing involved over 1700 acres, a three-year time span of actions and allowable transaction costs, and \$1.32M in final closing costs. It was clearly intended, by both SDEDA and the property owners, to close on this ranchland in mid-June 2016. This anticipated closing date was further evidenced by the initial transfer of \$900K on 13 Jun 16 and the subsequent transfer of \$440K on 14 Jun 16 from the SDEDA REPI Savings Account to the singular SDEDA Checking Account. Two principal delays resulted and were based on requests from either the owners or the title company. For instance, the title company initially requested a written check for the closing; and subsequently requested an EFT which was effected on 7 July 16. The property closed on 8 July 16.
- (3) In terms of internal controls and tracking, SDEDA employs a "REPI Program Settlement Spreadsheet". This spreadsheet is frequently updated and intended to track property identification, ownership, allowable costs, legal requirements, program level transactions, and overall funds involved; it is not designed or used to track funds on an annual basis. Our accountant simply failed to accurately enter this property closing in the correct Fiscal Year period.

To summarize, the error identified by the auditors related to the timing of the purchase of 1,700 acres of land under the DOD REPI program. We had fully anticipated the closing would be completed in mid-June 2016, but there were unforeseen delays causing the closing to be completed instead on July 8, 2016. The closing of this transaction across multiple fiscal years caused an error in revenue recognition. There was no noncompliance with the REPI program as this program is funded on a five-year utilization cycle. To ensure this type of error does not re-occur, management and accountant will be diligent in reviewing transactions that may span fiscal year-ends to ensure proper reporting in the correct accounting period.

**SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY**

**SCHEDULE OF FINDINGS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016**

**2016-001: Material Weakness – Audit Adjustment (Continued)**

Management's Response (Continued):

Of note, SDEDA works closely and regularly with our accountant. However, SDEDA was not informed of this potential issue or finding, until 7 October 2016 when we received the Preliminary Audit Draft from the auditor. Management is confident this is not a compliance issue and that no findings exist within the REPI program. See attached corrective action plan.

**SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2016**

**Finding 2016-001**

To ensure this type of error does not re-occur, management and the accountant will be diligent in reviewing transactions that may span fiscal year-ends to ensure proper reporting in the correct accounting period.