



GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013 AND 2012



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

810 Quincy Street • Rapid City, SD 57701 • www.ktllp.com

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
<i>Financial Statements:</i>	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-9
<i>Supplemental Information:</i>	
Statement of Financial Position by Division	10
Statement of Activities and Changes in Net Assets by Division	11
Statement of Cash Flows by Division	12



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Greater Rapid City Area Economic Development Corporation
Rapid City, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of **GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION** (the Organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Organization'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 Organization'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 **GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION** as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Greater Rapid City Area Economic Development Corporation

Report on the Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information presented on pages 10-12 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.



KETEL THORSTENSON, LLP
Certified Public Accountants

June 2, 2014

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012**

ASSETS	2013	2012
Current Assets		
Cash	\$ 2,885,238	\$ 2,694,626
Certificate of Deposit	311,371	308,288
Accounts Receivable	731	-
Interest Receivable	2,165	1,800
Notes Receivable -- Current Portion (Note 2)	338,732	211,546
Total Current Assets	3,538,237	3,216,260
Noncurrent Notes Receivable		
Notes Receivable, Less Current Portion (Note 2)	853,180	1,272,595
Fixed Assets		
Equipment	10,247	15,129
Furniture	8,015	8,015
	18,262	23,144
Accumulated Depreciation	12,075	15,173
	6,187	7,971
TOTAL ASSETS	\$ 4,397,604	\$ 4,496,826
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 2,090	\$ 1,702
Accrued Expenses	78	67
Opportunity Capture Funds (Note 6)	119,875	230,000
Total Current Liabilities	122,043	231,769
Net Assets		
Unrestricted	4,275,561	4,265,057
TOTAL LIABILITIES AND NET ASSETS	\$ 4,397,604	\$ 4,496,826

The accompanying notes are an integral part of these statements.

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
Revenue		
City of Rapid City (Note 4)	\$ 250,000	\$ 250,000
Memberships	78,520	67,450
Interest Income on Notes Receivable (Note 2)	36,931	47,646
Administration Income (Note 3)	30,000	30,000
Pennington County (Note 4)	10,000	10,000
Interest Earned from Banks	4,387	3,526
Grant Income	-	12,619
Total Revenue	409,838	421,241
Operating Expenses (Note 5)		
Salaries	199,459	198,116
Rent (Note 3)	42,468	42,468
Travel	37,186	15,175
Fringe Benefits	35,370	32,434
Advertising	18,024	3,431
Professional Fees	14,639	38,393
Payroll Taxes	14,606	14,565
Meetings	10,321	7,426
Administrative Fees	5,377	6,074
Supplies	5,291	3,485
Utilities	4,897	2,679
Public Relations	4,575	11,426
Insurance	3,847	3,747
Depreciation	1,943	1,212
Postage	482	426
Professional Development	472	2,845
Miscellaneous	377	143
Bad Debts	-	28
Total Operating Expenses	399,334	384,073
Change in Net Assets	10,504	37,168
Unrestricted Net Assets -- Beginning of Year	4,265,057	4,227,889
Unrestricted Net Assets -- End of Year	\$ 4,275,561	\$ 4,265,057

The accompanying notes are an integral part of these statements.

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Change in Net Assets	\$ 10,504	\$ 37,168
<i>Adjustments to Reconcile Change in Net Assets to Net Cash Provided</i>		
<i>By (Used in) Operating Activities:</i>		
Depreciation	1,943	1,212
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Accounts Receivable	(731)	7,063
Interest Receivable	(365)	291
Accounts Payable and Accrued Expenses	399	(2,414)
Opportunity Capture Funds	(110,125)	230,000
Net Cash Flows Provided by (Used in) Operating Activities	(98,375)	273,320
Cash Flows From Investing Activities		
Purchase of Certificate of Deposit	(3,083)	(1,842)
Issuance of Notes Receivable	(422,750)	-
Principal Payments Received on Notes Receivable	714,979	442,112
Purchase of Property and Equipment	(159)	(4,548)
Net Cash Flows Provided by Investing Activities	288,987	435,722
Net Increase in Cash	190,612	709,042
Cash -- Beginning of Year	2,694,626	1,985,584
Cash -- End of Year	\$ 2,885,238	\$ 2,694,626

The accompanying notes are an integral part of these statements.

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Greater Rapid City Area Economic Development Corporation (the Organization) was established to improve the quality of life and increase personal income levels in the greater Rapid City area by fostering a vital business climate, which provides quality new jobs, attracts new business, helps existing businesses, and promotes entrepreneurship.

The Rapid Fund Division of the Organization promotes industrial development by offering low interest loans to qualified businesses in the Rapid City area. Since inception, the City of Rapid City (the City) has provided a majority of the funds used by the Organization to provide loans and fund continuous operations.

Method of Accounting

The Organization uses the accrual method of accounting.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no temporarily or permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

Cash

For the purposes of the financial statements, the Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Organization maintains its cash in bank deposit accounts that, at times, may exceed federally-insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Opportunity Capture Fund

The Foundation administers certain allocations of the Opportunity Capture Fund (the Fund) as directed and approved by the City of Rapid City. These funds are used to promote economic development for businesses or organizations.

Notes Receivable

Notes receivable are stated at unpaid principal balances. Payments not received in accordance with the terms of the note agreements are considered past due. Notes receivable will be charged off as uncollectible when management feels they have exhausted all collection efforts. Notes receivable are placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to interest income. Interest income on nonaccrual notes is recognized only to the extent cash payments are received. Interest income is recognized on impaired loans per interest rates stated in the agreements.

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013 AND 2012

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

Notes Receivable (Continued)

The allowance for notes receivable losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the notes in light of historical experience, specific impaired notes, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. Based on this analysis, management has estimated an allowance for uncollectible notes. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. No single statistic or measurement determines the adequacy of the allowance for notes receivable losses. Accordingly, it is at least reasonably possible that the estimated collectability of notes receivable may change in the near term.

A note is considered impaired when, based on current information and events, it is probable the Organization will be unable to collect the contractual interest and principal due in accordance with the terms of the note agreement. Notes that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the note and the borrower, including the length of the delay, the reasons for the delay, the borrower's payment record, and the amount of the shortfall in relation to the principal and interest owed.

Accounting principles generally accepted in the United States of America require not-for-profit organizations to record imputed interest revenue and contribution expense on money lent (notes receivable) at below-market interest rates. Interest Rates on notes receivable are disclosed in Note 2. The Organization believes the overall impact is not significant to the Organization. Therefore, the Organization has not recognized an imputed contribution expense for low interest loans made.

Property and Equipment

Property and equipment are stated at cost. The Organization capitalizes assets purchased over \$100 and expenses all other. Donated property is recorded at fair value at the date of contribution. Depreciation expense is computed using the straight-line method over a five year estimated useful life for both property and equipment.

Revenue Recognition and Memberships Receivable

Membership support from local businesses is recognized and accrued annually at the time of renewal. Any receivables not paid within 30 days of the renewal notice are considered past due. Management estimates an allowance for uncollectible memberships based on their knowledge of current environmental conditions and historical losses. Substantially all of the accounts receivable are considered collectible. Accordingly, no allowance for doubtful accounts has been established for the years ended December 31, 2013 and 2012. If it is determined that any membership receivables are uncollectible, they are charged to operations and an allowance is established when that determination is made.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2013 and 2012 were **\$18,024** and \$3,431, respectively.

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012**

(1) Nature of Operations and Summary of Significant Accounting Policies (Concluded)

Federal Income Tax

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

At December 31, 2013 and 2012, the Organization believes that no significant uncertain tax positions or liabilities exist. In accordance with the applicable status of limitations, the Organization's tax returns could be audited by the Internal Revenue Service for the years ended December 31, 2010 to 2013.

Subsequent Events

Management has evaluated significant subsequent events through June 2, 2014, the date the financial statements were available for issue.

(2) Notes Receivable

As of December 31, 2013, the Organization had seven loans outstanding to various Rapid City businesses. The largest loan is for approximately \$423,000. These loans carry interest rates ranging from 3.00 to 4.50 percent per annum and mature at varying times in the next five years. All notes are secured by either a first or second position blanket security interest on the assets of the respective business, collateral with a market value equal to 100 percent of the respective loan, or personal guarantees of the owners for the majority of the loans.

All notes receivable were evaluated individually for impairment. One note receivable of **\$281,496** was considered delinquent and impaired at both December 31, 2013 and 2012 with no previously charged off amounts. Management has estimated that an allowance for uncollectible accounts of **\$281,496** for both the years ending December 31, 2013 and 2012.

There are no impaired loans without an allowance at December 31, 2013 or 2012. The average recorded investment calculated based on beginning and end of year balances of the impaired note is \$281,496 at December 31, 2013. At December 31, 2013, there are no loans past due 90 days or more and still accruing interest.

Principal amounts to be received in the following five years are as follows:

	Total	Allowance	Net
2014	\$ 491,053	\$ 152,321	\$ 338,732
2015	89,004	44,347	44,657
2016	232,322	45,689	186,633
2017	72,076	39,139	32,937
2018	588,953	-	588,953
	\$ 1,473,408	\$ 281,496	\$ 1,191,912

The following table summarizes the aging of notes as of December 31, 2013:

Current	31-60 Days Delinquent	61-90 Days Delinquent	Greater than 90 Days Delinquent	Total Receivable
\$ 1,191,912	\$ -	\$ -	\$ 281,496	\$ 1,473,408
6	-	-	1	7
80.89%	0.00%	0.00%	19.11%	100.00%

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2013 AND 2012**

(2) Notes Receivable (Continued)

A summary of activity in the allowance for notes receivable losses is as follows for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 281,496	\$ 281,496
Provision Charged to Operating Expense	-	-
Recoveries of Amounts Charged Off	-	-
	<u>281,496</u>	<u>281,496</u>
Amounts Charged Off	-	-
Ending Balance	\$ 281,496	\$ 281,496

(3) Related Parties

A portion of the administrative expenses included in the Organization's financial statements benefit the operations of the Rapid City Economic Development Foundation (the Foundation) which is related to the Organization through common management. The Organization collected **\$30,000** in administrative fees from the affiliated organization during both of the years ended December 31, 2013 and 2012.

The Organization leases office space from the Foundation. The lease agreement requires monthly rent of **\$3,539** for both the years ended December 31, 2013 and 2012. Rent expense was **\$42,468** for both the years ended December 31, 2013 and 2012.

(4) Revenue

The Organization has historically received annual revenue support from the City of Rapid City (the City) and Pennington County (the County). There are no formal agreements for this support. Management anticipates that these entities will continue to fund the Organization in future years; however, there is no guarantee that future funding will be received. The County provided funding to the Organization in the amount of **\$10,000** for both the years ended December 31, 2013 and 2012 and has approved funding of \$10,000 for the year ending December 31, 2014. The City provided funding to the Organization in the amount of **\$250,000** for both the years ended December 31, 2013 and 2012 and has approved funding of \$250,000 for the year ending December 31, 2014. The City's agreement with the Organization will automatically renew for another one-year term, unless cancelled by either party.

The Organization operates independently of the County and City; however, the bylaws of the Organization specify that a member of these entities be represented on the Organization's Board of Directors. Permanent seats on the Board of Directors will be held by the Mayor of Rapid City and the Chairman of the Pennington County Commission.

(5) Allocation of Functional Expenses

Management has estimated that approximately 60 percent of the Organization's expenses were related to program activities during the years ended December 31, 2013 and 2012. All other expenses were related to management and general functions of the Organization.

(6) Opportunity Capture Fund

The Organization acted as an agent for pass-through funds of the Opportunity Capture Fund. These amounts were not recorded as revenue or expense, as the Organization acts strictly as a cash conduit for these funds. Total funds disbursed by the Organization during the year ended December 31, 2013 and 2012 were **\$455,375** and \$142,250, respectively. Funds that have not been disbursed of **\$119,875** and \$230,000 at December 31, 2013 and 2012, respectively, are classified as current liabilities on the Statement of Financial Position.

SUPPLEMENTAL INFORMATION

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL POSITION BY DIVISION
DECEMBER 31, 2013

ASSETS	Loan Fund Division	Economic Development Division	Eliminations	Combined
Current Assets				
Cash	\$ 2,042,322	\$ 842,916	\$ -	\$ 2,885,238
Certificate of Deposit	311,371	-	-	311,371
Accounts Receivable	-	731	-	731
Interest Receivable	2,165	-	-	2,165
Notes Receivable -- Current Portion	338,732	-	-	338,732
Total Current Assets	2,694,590	843,647	-	3,538,237
Noncurrent Notes Receivable				
Notes Receivable, Less Current Portion for Bad Debts of \$281,496 at December 31, 2013	853,180	-	-	853,180
Fixed Assets				
Equipment	-	10,247	-	10,247
Furniture	-	8,015	-	8,015
	-	18,262	-	18,262
Accumulated Depreciation	-	12,075	-	12,075
	-	6,187	-	6,187
TOTAL ASSETS	\$ 3,547,770	\$ 849,834	\$ -	\$ 4,397,604
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable	\$ -	\$ 2,090	\$ -	\$ 2,090
Accrued Expenses	-	78	-	78
Opportunity Capture Funds	-	119,875	-	119,875
Total Current Liabilities	-	122,043	-	122,043
Net Assets				
Unrestricted	3,547,770	727,791	-	4,275,561
TOTAL LIABILITIES AND NET ASSETS	\$ 3,547,770	\$ 849,834	\$ -	\$ 4,397,604

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2013

	Loan Fund Division	Economic Development Division	Eliminations	Combined
Revenue and Support				
City of Rapid City	\$ -	\$ 250,000	\$ -	\$ 250,000
Memberships	-	78,520	-	78,520
Interest Income on Notes Receivable	34,993	1,938	-	36,931
Administration Income	-	30,000	-	30,000
Pennington County	-	10,000	-	10,000
Interest Earned from Banks	4,387	-	-	4,387
Total Revenue and Support	39,380	370,458	-	409,838
Expenses				
Salaries	-	199,459	-	199,459
Rent	-	42,468	-	42,468
Travel	-	37,186	-	37,186
Fringe Benefits	-	35,370	-	35,370
Advertising	-	18,024	-	18,024
Professional Fees	2,130	12,509	-	14,639
Payroll Taxes	-	14,606	-	14,606
Meetings	-	10,321	-	10,321
Administrative Fees	30	5,347	-	5,377
Supplies	-	5,291	-	5,291
Utilities	-	4,897	-	4,897
Public Relations	-	4,575	-	4,575
Insurance	-	3,847	-	3,847
Depreciation	-	1,943	-	1,943
Postage	-	482	-	482
Professional Development	-	472	-	472
Miscellaneous	-	377	-	377
	2,160	397,174	-	399,334
Increase (Decrease) in Net Assets	37,220	(26,716)	-	10,504
Unrestricted Net Assets -- Beginning of Year	3,510,550	754,507	-	4,265,057
Unrestricted Net Assets -- End of Year	\$ 3,547,770	\$ 727,791	\$ -	\$ 4,275,561

GREATER RAPID CITY AREA ECONOMIC DEVELOPMENT CORPORATION

**STATEMENT OF CASH FLOWS BY DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Loan Fund Division	Economic Development Division	Eliminations	Combined
Cash Flows From Operating Activities				
Change in Net Assets	\$ 37,220	\$ (26,716)	\$ -	\$ 10,504
<i>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:</i>				
Depreciation	-	1,943	-	1,943
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>				
Accounts Receivable	-	(731)	-	(731)
Interest Receivable	(365)	-	-	(365)
Accounts Payable and Accrued Expenses	(725)	1,124	-	399
Opportunity Capture Funds	-	(110,125)	-	(110,125)
Net Cash Flows Provided by (Used in) Operating Activities	36,130	(134,505)	-	(98,375)
Cash Flows From Investing Activities				
Purchase of Certificate of Deposit	(3,083)	-	-	(3,083)
Issuance of Notes Receivable	(422,750)	-	-	(422,750)
Principal Payments Received on Notes Receivable	573,529	141,450	-	714,979
Purchase of Property and Equipment	-	(159)	-	(159)
Net Cash Flows Provided by Investing Activities	147,696	141,291	-	288,987
Net Increase in Cash	183,826	6,786	-	190,612
Cash -- Beginning of Year	1,858,496	836,130	-	2,694,626
Cash -- End of Year	\$ 2,042,322	\$ 842,916	\$ -	\$ 2,885,238