

South Dakota

EDFA

Economic Development
Finance Authority

June 30, 2007 Annual
Financial Report



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GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT
SOUTH DAKOTA

711 E. Wells Ave. Pierre, South Dakota
57501-3369
(605) 773-3301 Fax: (605) 773-3256
www.SDReadyToWork.com

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY**

AUDIT REPORT

Fiscal Year Ended June 30, 2007



**State of South Dakota
Department of Legislative Audit
427 South Chapelle
%500 East Capitol
Pierre, SD 57501-5070**



GOVERNOR'S OFFICE OF

ECONOMIC DEVELOPMENT

www.SDreadytowork.com

711 E. Wells Ave., Pierre, SD 57501-3369
Phone 1-800-872-6190 | 605-773-3301 | Fax 605-773-3256

Dear South Dakotans:

This past year has been a great one for business opportunity and expansion. In Governor's Office of Economic Development, we are fortunate to be able to work closely with companies that are directly contributing to South Dakota's economic growth. Our finance programs provide necessary support to many companies so they can create quality jobs and pursue additional opportunity.

In this preliminary report you will see the past year's activity of the Economic Development Finance Authority (EDFA). By utilizing these programs, South Dakota companies have access to resources necessary to compete in today's knowledge driven markets.

The complete Annual Report will be published in January with more comprehensive statistical information and analysis of these funds' activities.

Thank you for your interest in our efforts and for partnering with us to make South Dakota an even better place to live, work and build.

Sincerely,

Kim Olson, Director
Governor's Office of Economic Development



Department of
Tourism & State
Development

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Governor's Office of Economic Development SDreadytowork.com
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**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
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427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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 M. Michael Rounds
Governor of South Dakota

and

Board of Directors
South Dakota Economic Development Finance Authority

We have audited the financial statements of the South Dakota Economic Development Finance Authority as of and for the fiscal year ended June 30, 2007 and have issued our report thereon dated October 9, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Dakota Economic Development Finance Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 South Dakota Economic Development Finance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Economic Development Finance Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Current Audit Finding and Recommendation as finding number 04001200701 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Economic Development Finance Authority's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the South Dakota Economic Development Finance Authority in a separate letter dated October 9, 2007.

The South Dakota Economic Development Finance Authority's response to the finding identified in our audit is provided in the accompanying Schedule of Current Audit Finding and Recommendation. We did not audit the South Dakota Economic Development Finance Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and members of the South Dakota Legislature and is not intended to be and should not be used by anyone other than those specified. However, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

October 9, 2007



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable M. Michael Rounds
Governor of South Dakota

and

Board of Directors
South Dakota Economic Development Finance Authority

We have audited the accompanying financial statements of the South Dakota Economic Development Finance Authority, a business-type activity component unit of the State of South Dakota, as of and for the fiscal year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the South Dakota Economic Development Finance Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The South Dakota Economic Development Finance Authority's financial statements do not disclose an allowance for loan loss in relation to loans receivable reported for the pooled bond program. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of an allowance for loan loss as discussed in paragraph three, 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, 2007, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2007 on our consideration of South Dakota Economic Development Finance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Martin L. Guindon, CPA
Auditor General

October 9, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Economic Development Finance Authority's (EDFA) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2007. 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, 2007

- Total assets of the EDFA decreased \$1,469,758 (or 4.74%) primarily due to the early redemption of the APA Enterprises Inc. bonds (Series 1996A).
- Total liabilities of the EDFA decreased \$1,918,641 (or 8.26%) primarily due to the early redemption of the APA Enterprises Inc. bonds (Series 1996A).

Changes in Assets and Liabilities

	FY 2006	FY 2007	Increase (Decrease)	% Increase (Decrease)
Assets:				
Cash and Cash Equivalents	\$ 1,587,770	\$ 1,690,607	\$ 102,837	6.48%
Investments	9,649,595	9,140,935	(508,660)	(5.27)
Loans Receivable	19,873,548	18,688,749	(1,184,759)	(5.96)
Allowance for Uncollectible Loans	(160,018)	(160,018)	0	0.00
Other	70,688	67,062	(3,626)	(5.13)
Total Assets	31,021,583	29,551,825	(1,469,758)	(4.74)
Liabilities:				
Amounts Held in Custody for Others	118,825	114,522	(4,303)	(3.62)
Bonds Payable	825,000	755,000	(70,000)	(8.49)
Accrued Interest Payable	269,465	252,225	(17,240)	(6.40)
Other	2,098,291	2,507,126	408,835	19.48
Loan Escrow Payable	2,017,176	1,681,243	(335,933)	(16.54)
Noncurrent bonds Payable	17,900,000	16,000,000	(1,900,000)	(10.62)
Total Liabilities	23,228,757	21,310,116	(1,918,641)	(8.26)
Restricted Net Assets	6,938,886	6,609,780	(329,106)	(4.74)
Unrestricted Net Assets, restated	853,940	1,631,928	777,988	91.11
Total Net Assets	\$ 7,792,826	\$ 8,241,708	\$ 448,882	5.76

Change in Net Assets

	FY 2006	FY 2007	Increase (Decrease)	% Increase (Decrease)
Revenues:				
Interest Income on Loans	\$ 947,003	\$ 1,122,932	\$ 175,929	18.58%
Investment Income	440,969	413,136	(27,833)	(6.31)
Total Revenues	1,387,972	1,536,068	148,096	10.67
Expenses:				
Interest Expense	972,196	1,011,502	39,306	4.04
Contractual Services	49,228	62,164	12,936	26.28
Refund to Institution	26,472	9,894	(16,578)	(62.63)
Issuance Expenses	1,813	0	(1,813)	(100.00)
Total Expenses	1,049,709	1,083,560	33,851	3.23
Change in Net Assets	\$ 338,263	\$ 452,508	\$ 114,245	33.77%

- The EDFA approved \$2,000,885 in APEX (Agricultural Processing and Exporting) Loans during FY 2007 compared to \$318,000 in approved loans during FY 2006.

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

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2007**

Assets	
Current Assets:	
Cash and Cash Equivalents (Note 2)	\$ 1,662,464
Investments (Note 2)	1,386,955
Investment Interest Receivable	57,374
Loan Interest Receivable	77,059
Loans Receivable (Note 3)	1,250,553
Restricted Cash & Cash Equivalents (Note 2)	28,142
Restricted Investments (Note 2)	3,732,860
Total Current Assets	<u>8,195,408</u>
Investments (Note 2)	1,162,399
Loans Receivable (Net of Allowance for Loan Loss) (Note 3)	17,278,178
Restricted Investments (Note 2)	2,848,778
Deferred Charges	67,063
Total Assets	<u>29,551,825</u>
Liabilities	
Current Liabilities:	
Accounts Payable	10,494
Accrued Interest Payable	241,731
Due To Other Governments (Note 6)	115,000
Bonds Payable (Note 4)	755,000
Amounts Held in Custody for Others	114,523
Total Current Liabilities	<u>1,236,748</u>
Noncurrent Liabilities	
Due to Other Governments (Note 6)	2,392,126
Long Term Loan Escrow Payable	1,681,243
Bonds Payable (Note 4)	16,000,000
Total Liabilities	<u>21,310,116</u>
Net Assets	
Restricted for Debt Service (Note 1)	6,609,780
Unrestricted	1,631,928
Total Net Assets	<u>\$ 8,241,708</u>

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 FUND NET ASSETS
For the Fiscal Year Ended June 30, 2007**

Operating Revenue:	
Interest Income on Loans	\$ 1,122,932
Total Operating Revenue	<u>1,122,932</u>
Operating Expenses:	
Contractual Services	62,165
Interest Expense	1,011,502
Issuance Expense	3,625
Refund to Institution	9,894
Total Operating Expenses	<u>1,087,186</u>
Operating Income	35,747
Nonoperating Revenue:	
Investment Income	413,136
Total Nonoperating Revenue	<u>413,136</u>
Change in Net Assets	448,882
Net Assets At Beginning of Year	<u>7,792,826</u>
Net Assets at End of Year	<u><u>\$ 8,241,708</u></u>

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, 2007**

Cash Flows from Operating Activities:		
Receipts for Bond Repayments	\$ 1,570,009	
Receipts for Interest Income on Loans	1,110,863	
Receipts for Loan Repayments	232,046	
Other Receipts	413,741	
Payments to Loan Recipients	(1,095,986)	
Payments for Contractual Services	(60,794)	
Other Payments	<u>(352,948)</u>	
Net Cash Used by Operating Activities		1,816,931
Cash Flows from Noncapital Financing Activities:		
Proceeds from Revenue Bonds		
Proceeds from Loans	525,543	
Principal Paid on Revenue Bonds	(1,970,000)	
Payments for Bond Issuance		
Interest Payments on Bonds and Notes	(1,039,236)	
Principal Paid on Loans	<u>(107,585)</u>	
Net Cash Provided by Noncapital Financing Activities		(2,591,278)
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investment Securities	5,320,588	
Investment Income	286,524	
Purchase of Investment Securities	<u>(4,729,929)</u>	
Net Cash Used by Investing Activities		877,183
Net Increase in Cash and Cash Equivalents During the Fiscal Year		102,836
Cash and Cash Equivalents at Beginning of Year		<u>1,587,770</u>
Cash and Cash Equivalents at End of Year		<u>\$ 1,690,606</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		\$ 35,747
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Interest Expense	1,011,502	
Amortization Expense	3,625	
Decrease/(Increase) in Assets:		
Loan Interest Receivable	(12,069)	
Loans Receivable	1,119,810	
Increase/(Decrease) in Liabilities:		
Accounts Payable	1,371	
Loan Escrow Payable	(347,348)	
Amounts Held for Others	4,294	
Total Adjustments		<u>1,781,185</u>
Net Cash Provided (Used) by Operating Activities		<u>\$ 1,816,931</u>

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, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authorizing Legislation

Executive Order 87-1 established the South Dakota Economic Development Finance 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. 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. The Authority follows all Governmental Accounting Standards Board (GASB) pronouncements and those Financial and Accounting Standards Boards Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

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 interest and principle 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. Restricted Net Assets

The bond indentures provide that certain reserve accounts be established. The reserve accounts, as of June 30, 2007, are comprised of restricted net assets as follows:

Capital Reserve Account	\$ 5,000,000
Loan Reserve Accounts	1,609,780
Total Restricted Net Assets	<u>\$ 6,609,780</u>

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 to any state fund to be used for other purposes.

The First Amended and Restated General Bond Resolution requires 10% of the bond principal amount or the largest principal and interest payment due in any current or future year to remain deposited in the Loan Reserve Accounts until the loan is paid in full.

I. Conduit Debt Obligations

The Finance 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 state government 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 state 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, 2007, the aggregate amount of stand-alone bond principal outstanding was \$18,610,000. The original issue amount of stand-alone bonds totaled \$24,125,000.

J. 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.

K. 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 investments and 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.

2. CASH AND INVESTMENTS

Under the terms of the General Bond resolution of the 1996A, 1998A&B, 1999, 2003A, 2004A, 2004B, and 2005A pooled bond issues, 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 1996A, 1998A&B, 1999, 2003A, 2004A, 2004B, and 2005A pooled bond issues 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.

Custodial Credit Risk:

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity. Category 3 investments are those that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Authority's name.

At June 30, 2007, carrying value and fair value of investments consisted of the following:

	Carrying Value	Fair Value
CATEGORY 3 - INVESTMENTS:		
U.S. Government and Agency Securities	\$ 8,216,176	\$ 8,209,376
Total Investments	<u>8,216,176</u>	<u>8,209,376</u>
INVESTMENTS NOT CATEGORIZED:		
Mutual Funds	1,689,234	1,689,234
Total Investments	<u>\$ 9,905,410</u>	<u>\$ 9,898,610</u>

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	\$ 4,211,818
Restricted Cash and Investments – Capital Reserve Account and Loan Reserve Accounts	6,609,780
Total Cash and Investments	<u>\$ 10,821,598</u>

Interest Rate Risk:

The EDFA 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, 2007 the EDFA had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-5	6-10
U.S. Treasury Notes	\$ 1,017,175	\$ 1,017,175	\$	\$
U.S. Treasury Strips	45,429			45,429
U.S. Government Agencies*	7,146,771	74,335	6,773,996	298,440
Certificates of Deposit	921,615		465,940	455,675
Total	<u>\$ 9,130,990</u>	<u>\$ 1,091,510</u>	<u>\$ 7,239,936</u>	<u>\$ 799,544</u>

* = 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 EDFA 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, 2007, the EDFA had the following investments, excluding those issued by or explicitly guaranteed by the U.S. Government, which are not considered to have credit risk.

<u>Standard & Poor's Rating</u>	<u>Fair Value</u>
AAA	\$ 7,146,771

3. LOANS RECEIVABLE

Change in loans receivable for the year ending June 30, 2007 consisted of the following:

Beginning Balance	\$ 19,808,559
New APEX Program Loans	1,095,986
Principal Payment – Bonds	(1,983,750)
Principal Payment – APEX	<u>(232,046)</u>
Loans Receivable – Before Allowance	18,688,749
Allowance for Loan Loss applicable to the APEX Loan Program	<u>(160,018)</u>
TOTAL LOANS RECEIVABLE – Net of Allowance	<u>\$ 18,528,731</u>

The Agricultural Processing and Export (APEX) Program was created in 1988 when loans (Note 6) from Rural Development, and Revolving Economic Development and Initiative Fund were issued to the Economic Development Finance 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, 2007:

Beginning Balance	\$ 18,725,000
Bonds Retired	<u>(1,970,000)</u>
Ending Balance	<u>\$ 16,755,000</u>
Due Within One Year	<u>\$ 755,000</u>

The following are the revenue bonds outstanding for the pooled bond program at June 30, 2007:

Issue	Interest Rate	Maturity Through	Principal Balance
Series 1998A&B			
Term Bonds (Series A)	5.50%	2018	\$ 685,000
Term Bonds (Series B)	7%	2009	65,000
			<u>750,000</u>
Series 1999A			
Term Bonds	4.95%	2009	215,000
Term Bonds	5.25%	2010	115,000
Term Bonds	5.50%	2019	1,385,000
			<u>1,715,000</u>
Series 2003A			
Serial Bonds	4.25-5.25%	2013	1,690,000
			<u>1,690,000</u>
Series 2004A			
Term Bonds	4.375%	2011	455,000
Term Bonds	5.000%	2014	405,000
Term Bonds	6.000%	2029	3,820,000
			<u>4,680,000</u>
Series 2004B			
Term Bonds	4.375%	2011	470,000
Term Bonds	5.000%	2014	420,000
Term Bonds	5.950%	2024	2,330,000
			<u>3,220,000</u>
Series 2005A			
Serial Bonds	5.25-5.75%	2016	1,475,000
Term Bonds	6.05%	2026	3,225,000
			<u>4,700,000</u>
Total			<u>\$ 16,755,000</u>

The following is a schedule of future bond payments and future interest payments remaining at June 30, 2007:

Year Ended June 30	Principal	Interest	Total Principal and Interest
2008	\$ 755,000	\$ 942,197	\$ 1,697,197
2009	785,000	906,425	1,691,425
2010	825,000	869,110	1,694,110
2011	870,000	829,092	1,699,092
2012	925,000	785,810	1,710,810
2013-2017	3,940,000	3,247,624	7,187,624
2018-2022	3,760,000	2,123,764	5,883,764
2023-2027	3,865,000	943,845	4,808,845
2028-2032	1,030,000	104,700	1,134,700
Total	\$ 16,755,000	\$ 10,752,567	\$ 27,507,567

5. LOAN COMMITMENTS

At June 30, 2007, the Economic Development Finance Authority had the following loan commitments.

Agricultural Processing and Export Program (APEX)	<u>\$ 1,222,899</u>
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6. DUE TO'S

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

Beginning Balance:	\$ 2,089,167
New loans – RD	525,543
Payments to RD	(107,585)
TOTAL DUE TO'S	<u>\$ 2,507,125</u>

CFDA Number: 10.767
 Federal Agency: Rural Business & Cooperative Development Service
 Program: Intermediary Relending Program
 State Agency: Tourism & State Development
 Outstanding Loans: \$2,507,125

The Governor's Office of Economic Development, through the Economic Development Finance Authority (EDFA), participates in the Agricultural Processing and Export (APEX) Loan Program with funds obtained from the Rural Economic and Community Development (RECD) Intermediary Relending Program (IRP). The EDFA has entered into loan agreements with the RECD in the amount of \$3,000,000. The EDFA 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, 2007 EDFA had \$2,507,125 in outstanding loans.

7. SUBSEQUENT EVENTS

On July 24, 2007 the Economic Development Finance Authority Board authorized the issuance and sale of Economic Development Revenue Bonds in the amount of \$5,300,000 on a stand-alone basis to the Bergquist Company to finance the expansion of manufacturing facilities in Brandon, South Dakota.

ECONOMIC DEVELOPMENT FINANCE AUTHORITY
CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

State Audit Finding:

Finding No. 04001200701:

Controls were not adequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions.

Analysis:

During fiscal year 2007, the Economic Development Finance Authority (Authority) did not have a system to record accounting transactions. The Authority's financial statements were prepared by an employee of the South Dakota Health and Education Facilities Authority using bank statements and other information provided by the Authority. Our audit identified material misstatements in the following accounts:

- Cash and Cash Equivalents
- Investments
- Loans Receivable
- Due to Other Governments
- Bonds Payable
- Escrow Payable
- Interest Income on Loans
- Investment Income
- Interest Expense

In addition, erroneous entries were identified relating to a stand-alone bond issuance that should not have been included in the Authority's financial statements. Although adjustments were posted to the financial statements correcting the errors and omissions noted during the audit, auditor involvement was required to determine the adjustments necessary to properly report the financial statements of the Authority. Because the Authority did not have adequate controls to ensure the accuracy of amounts reported on the financial statements, there existed an increased exposure to inaccurate financial reporting.

RECOMMENDATION:

We recommend the Authority implement internal control procedures to identify and correct reporting errors and omissions and ensure the accuracy of amounts reported in the financial statements.

Auditee's Corrective Action Plan:

Governor's Office of Economic Development (GOED) will work with South Dakota Health Education Facilities Authority (SD HEFA), which provides the accounting for the Economic Development Finance Authority (EDFA). GOED will implement an accounting system at GOED for recording of financial transactions to serve as a control procedure for the accounting statement preparations. Currently SD HEFA prepares accounting statements for the EDFA based on bank statements of accounts at First National Bank Sioux Falls. After design and implementation of new financial transaction recording system, GOED will be able to reconcile the system with the prepared financial statements.