

South Dakota

EDFA

Economic Development
Finance Authority

June 30, 2008 Annual
Financial Report



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GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT
SOUTH DAKOTA

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**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY**

AUDIT REPORT

Fiscal Year Ended June 30, 2008

**SOUTH DAKOTA ECONOMIC DEVELOPMENT
FINANCE AUTHORITY
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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, 2008 and have issued our report thereon dated November 13, 2008. 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 deficiencies described in the accompanying schedule of findings and questioned costs as findings number 04001200802 and 04001200803 to be significant deficiencies 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.

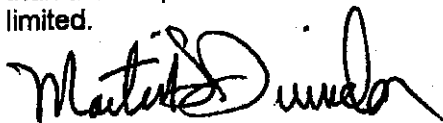
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose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

The South Dakota Economic Development Finance Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the South Dakota Economic Development Finance Authority's response and, accordingly, we express no opinion on them.

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

November 13, 2008



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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, 2008, 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.

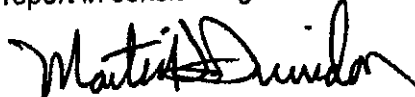
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2008, 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 November 13, 2008 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, 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 the internal control over financial reporting or on compliance. That 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

November 13, 2008

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, 2008. 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, 2008

- Total assets of the EDFA increased \$7,503,673 (or 25.39%) primarily due to the issuance of the Spearfish Forest Products bonds (Series 2008A).
- Total liabilities of the EDFA increased \$7,109,449 (or 33.36%) primarily due to the issuance of the Spearfish Forest Products bonds (Series 2008A).

Changes in Assets and Liabilities

	FY 2007	FY 2008	Increase (Decrease)	% Increase (Decrease)
Assets:				
Cash and Cash Equivalents	\$1,690,607	\$1,839,386	\$148,779	8.80%
Investments	9,188,366	9,239,781	51,415	0.56
Loans Receivable	18,765,808	26,072,911	7,307,103	38.94
Allowance for Uncollectible Loans	(160,018)	(160,018)	0	0.00
Other	67,063	63,438	(3,625)	(5.40)
Total Assets	29,551,826	37,055,498	7,503,672	25.39
Liabilities:				
Amounts Held in Custody for Others	114,523	113,783	(740)	(0.65)
Bonds Payable	755,000	895,000	140,000	18.54
Accrued Interest Payable	252,225	324,928	72,703	28.82
Other	2,507,126	2,800,278	293,152	11.69
Loan Escrow Payable	1,681,243	1,680,576	(667)	(0.04)
Noncurrent bonds Payable	16,000,000	22,605,000	6,605,000	41.28
Total Liabilities	21,310,117	28,419,565	7,109,448	33.36
Restricted Net Assets	6,609,780	7,262,299	652,519	9.87
Unrestricted Net Assets, restated	1,631,929	1,373,634	(258,295)	(15.83)
Total Net Assets	\$8,241,709	\$8,635,933	\$394,224	4.78%

Change in Net Assets

	FY 2007	FY 2008	Increase (Decrease)	% Increase (Decrease)
Revenues:				
Interest Income on Loans	\$1,122,932	\$942,748	\$(180,184)	(16.05)%
Investment Income	413,136	570,134	156,998	38.00
Total Revenues	1,536,068	1,512,882	(23,186)	(1.51)
Expenses:				
Interest Expense	1,011,502	1,040,888	29,386	2.91
Contractual Services	62,164	77,769	15,605	25.10
Refund to Institution	9,894	0	(9,894)	(100.00)
Total Expenses	1,083,560	1,118,657	35,097	3.24
Change in Net Assets	\$452,508	\$394,225	\$(58,283)	(12.88)%

- The EDFA approved \$556,250 in APEX (Agricultural Processing and Exporting) Loans during FY 2008 compared to \$2,000,885 in approved loans during FY 2007.

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, 2008**

Assets

Current Assets:

Cash and Cash Equivalents (Note 2)	\$	1,263,880
Investments (Note 2)		922,508
Investment Interest Receivable		25,655
Loan Interest Receivable		77,933
Loans Receivable (Note 3)		1,564,764
Restricted Cash & Cash Equivalents (Note 2)		575,506
Restricted Investments (Note 2)		4,087,841
Total Current Assets		8,518,087

Noncurrent Assets:

Investments (Note 2)		1,604,824
Loans Receivable (Net of Allowance for Loan Loss) (Note 3)		24,270,196
Restricted Investments (Note 2)		2,598,952
Deferred Charges		63,438
Total Noncurrent Assets		28,537,410

Total Assets

37,055,498

Liabilities

Current Liabilities:

Accounts Payable		11,669
Accrued Interest Payable		313,259
Due To Other Governments (Note 6)		140,000
Bonds Payable (Note 4)		895,000
Amounts Held in Custody for Others		113,783
Total Current Liabilities		1,473,711

Noncurrent Liabilities

Due to Other Governments (Note 6)		2,660,278
Long Term Loan Escrow Payable		1,680,576
Bonds Payable (Note 4)		22,605,000
Total Noncurrent Liabilities		26,945,854

Total Liabilities

28,419,565

Net Assets

Restricted for Debt Service (Note 1)		7,262,299
Unrestricted		1,373,634

Total Net Assets

\$ 8,635,933

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, 2008**

Operating Revenue:		<u>\$ 942,748</u>
Interest Income on Loans		<u>942,748</u>
Total Operating Revenue		
Operating Expenses:		77,769
Contractual Services		<u>1,040,889</u>
Interest Expense		<u>1,118,658</u>
Total Operating Expenses		<u>(175,910)</u>
Operating Income		
Nonoperating Revenue:		570,134
Investment Income		<u>570,134</u>
Total Nonoperating Revenue		
Change in Net Assets		394,224
Net Assets At Beginning of Year		<u>8,241,709</u>
Net Assets at End of Year		<u>\$ 8,635,933</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, 2008**

Cash Flows from Operating Activities:		
Receipts for Bond Repayments	\$ 1,673,898	
Receipts for Interest Income on Loans	122,083	
Receipts for Loan Repayments	477,378	
Payments to Note Recipients	(7,500,000)	
Other Receipts	252,896	
Payments to Loan Recipients	(1,038,657)	
Payments for Contractual Services	(76,594)	
Net Cash Used by Operating Activities		(6,088,996)
Cash Flows from Noncapital Financing Activities:		
Proceeds from Revenue Bonds	7,500,000	
Proceeds from Loans	426,577	
Principal Paid on Revenue Bonds	(755,000)	
Interest Payments on Bonds and Notes	(969,361)	
Principal Paid on Loans	(477,378)	
Net Cash Provided by Noncapital Financing Activities		5,724,838
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investment Securities	5,700,299	
Investment Income	596,072	
Purchase of Investment Securities	(5,783,433)	
Net Cash Used by Investing Activities		512,938
Net Increase in Cash and Cash Equivalents During the Fiscal Year		148,780
Cash and Cash Equivalents at Beginning of Year		1,690,606
Cash and Cash Equivalents at End of Year		<u>\$ 1,839,386</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		\$ (175,910)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Interest Expense	1,390,622	
Amortization Expense	3,625	
Decrease/(Increase) in Assets:		
Loan Interest Receivable	(874)	
Loans Receivable	(7,306,229)	
Increase/(Decrease) in Liabilities:		
Accounts Payable	1,176	
Loan Escrow Payable	(666)	
Amounts Held for Others	(740)	
Total Adjustments		(5,913,086)
Net Cash Provided (Used) by Operating Activities		<u>\$ (6,088,996)</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, 2008**

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, 2008, are comprised of restricted net assets as follows:

Capital Reserve Account	\$ 5,000,000
Loan Reserve Accounts	2,262,299
Total Restricted Net Assets	<u>\$ 7,262,299</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, 2008, the aggregate amount of stand-alone bond principal outstanding was \$31,545,805. The original issue amount of stand-alone bonds totaled \$38,845,000.

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 1998A&B, 1999, 2003A, 2004A, 2004B, 2005 A and 2008 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 1998A&B, 1999, 2003A, 2004A, 2004B, 2005 A and 2008 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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value on investment securities that are in the possession of an outside party. The investment securities totaling \$9,138,468 were uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Authority's name.

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:

	<u>Fair Value</u>
Unrestricted Cash and Investments	\$ 3,791,212
Restricted Cash and Investments – Capital Reserve Account and Loan Reserve Accounts	7,262,299
Total Cash and Investments	<u>\$ 11,053,511</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, 2008 the EDFA had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
U.S. Treasury Bills	\$780,961	\$780,961	\$	\$
U.S. Treasury Strips	51,862			51,862
U.S. Government Agencies*	6,467,548	3,750,549	2,716,999	
Certificates of Deposit	1,913,753	382,469	1,531,284	
Total	<u>\$9,214,124</u>	<u>\$4,913,979</u>	<u>\$4,248,283</u>	<u>\$51,862</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, 2008, 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.

Standard & Poor's Rating

AAA

Fair Value\$ 6,470,389**3. LOANS RECEIVABLE**

Change in loans receivable for the year ending June 30, 2008 consisted of the following:

Beginning Balance	\$ 18,688,749
New Bonds	7,500,000
New APEX Program Loans	1,038,657
Principal Payment – Bonds	(755,000)
Principal Payment – APEX	(477,428)
Loans Receivable – Before Allowance	<u>25,994,978</u>
Allowance for Loan Loss applicable to the APEX Loan Program	<u>(160,018)</u>
TOTAL LOANS RECEIVABLE – Net of Allowance	<u>\$ 25,834,960</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, 2008:

Beginning Balance	\$ 16,755,000
Bonds Issued	7,500,000
Bonds Retired	(755,000)
Ending Balance	<u>\$ 23,500,000</u>
Due Within One Year	<u>\$ 895,000</u>

The following are the revenue bonds outstanding for the pooled bond program at June 30, 2008:

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	15,000
			<u>700,000</u>
Series 1999A			
Term Bonds	4.95%	2009	110,000
Term Bonds	5.25%	2010	115,000
Term Bonds	5.50%	2019	1,385,000
			<u>1,610,000</u>

Continued on next page

Issue	Interest Rate	Maturity Through	Principal Balance
Series 2003A Serial Bonds	4.25-5.25%	2013	1,440,000 <u>1,440,000</u>
Series 2004A Term Bonds	4.375%	2011	345,000
Term Bonds	5.000%	2014	405,000
Term Bonds	6.000%	2029	3,820,000
			<u>4,570,000</u>
Series 2004B Term Bonds	4.375%	2011	360,000
Term Bonds	5.000%	2014	420,000
Term Bonds	5.950%	2024	2,330,000
			<u>3,110,000</u>
Series 2005A Serial Bonds	5.25-5.75%	2016	1,345,000
Term Bonds	6.05%	2026	3,225,000
			<u>4,570,000</u>
Series 2008 Serial Bonds	3.00-4.85%	2015	1,705,000
Term Bonds	5.875%	2028	5,795,000
			<u>7,500,000</u>
Total			<u>\$ 23,500,000</u>

The following is a schedule of future bond payments and future interest payments remaining at June 30, 2008:

Year Ended June 30	Principal	Interest	Total Principal and Interest
2009	\$ 895,000	\$1,225,415	\$ 2,120,415
2010	1,065,000	1,280,384	2,345,384
2011	1,120,000	1,231,245	2,351,245
2012	1,185,000	1,234,464	2,419,464
2013	1,240,000	1,117,636	2,357,636
2014-2018	5,385,000	4,716,174	10,101,174
2019-2023	5,750,000	3,085,039	8,835,039
2024-2028	6,145,000	1,214,671	7,359,671
2029	715,000	42,900	757,900
Total	<u>\$ 23,500,000</u>	<u>\$ 15,147,928</u>	<u>\$ 38,647,928</u>

At June 30, 2008 Series 2008B Tower Tech bonds had been approved for \$9,500,000 but had not yet been issued.

5. LOAN COMMITMENTS

At June 30, 2008, the Economic Development Finance Authority had the following loan commitments.

Agricultural Processing and Export Program (APEX)	<u>\$ 425,000</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:	\$ 2,507,126
New loans – RD	426,577
Payments to RD	<u>(133,425)</u>
TOTAL DUE TO'S	<u>\$ 2,800,278</u>

CFDA Number: 10.767
Federal Agency: Rural Business & Cooperative Development Service
Program: Intermediary Relending Program
State Agency: Tourism & State Development
Outstanding Loans: \$2,800,278

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, 2008 EDFA had \$2,800,278 in outstanding loans.

ECONOMIC DEVELOPMENT FINANCE AUTHORITY
PRIOR AUDIT FINDING AND RECOMMENDATION

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.

Auditee's Corrective Action Plan:

See Current Audit Finding No. 04001200802

CURRENT AUDIT FINDING AND RECOMMENDATIONS

State Audit Finding:

Finding No. 04001200802:

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 2008, the Economic Development Finance Authority (Authority) did not have adequate controls to ensure that the financial statements for the Authority were prepared accurately. Adjustments were posted by the auditor to the financial statements correcting the errors and omissions noted during the audit. Our audit identified significant adjustments in the following accounts:

- Cash and Cash Equivalents
- Loans Receivable
- Due to Other Governments
- Interest Income on Loans
- Investment Income
- Bond Proceeds
- Interest Expense
- Contractual Services

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. As a result of the Authority not having adequate controls to ensure the accuracy of amounts reported on the financial statements, there existed an increased exposure to inaccurate financial reporting.

ECONOMIC DEVELOPMENT FINANCE AUTHORITY
(Continued)

RECOMMENDATION:

1. 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:

GOED has contracted a CPA firm to provide accounting services. The accountant and GOED are also developing a monthly process to verify accuracy of financial statements. This should lead to a more reliable, accurate and timely process for year-end accounting.

Federal Compliance Audit Finding:

Finding No. 04001200803:

Controls in place were not adequate to ensure that the information contained in Federal reports was accurate.

CFDA Title: Intermediary Relending Program

CFDA Number: 10.767

Federal Award Number: 47-033-0521498816

Federal Award Year: 2007-2008

Federal Agency: Rural Business & Cooperative Development Service

Type of Finding: Significant Deficiency

Category of Finding: Reporting

Analysis:

During fiscal year 2008, the Economic Development Finance Authority (Authority) did not have adequate controls to ensure that the Schedule of Expenditures of Federal Awards (SEFA) was accurately prepared. Multiple errors were noted by the auditor. The amount of Loans Payable was incorrectly calculated, which is used to calculate Loan Loss Reserve, therefore causing both accounts to be inaccurate. Also the Loans portion of the SEFA was incorrectly calculated and not updated properly. The SEFA was adjusted for the correct amounts.

RECOMMENDATION:

2. We recommend the Authority implement internal control procedures to ensure the accuracy of amounts reported in the Federal reports.

Auditee's Corrective Action Plan:

GOED was able to purchase in April 2008 a new Financial Accounting Loan Portfolio System (FAS) to address the accuracy of accounting for Loan Receivables as well as Loans Payable. Prior to FY2009, the only source documents accounting for the loans in the APEX portfolio were provided to GOED and the auditor was by the loan servicing

ECONOMIC DEVELOPMENT FINANCE AUTHORITY
(Continued)

provider's system. Currently, GOED is building the FAS loan portfolio system to track this information and provide a "check" to the information provided by the loan servicing provider. The system is being built using information as of July 1, 2008 and is expected to be completed by December 31, 2008.

In addition, GOED has contracted a CPA firm to provide accounting services. The accountant and GOED are also developing a monthly process to verify accuracy of financial statements. This should lead to a more reliable, accurate and timely process for year-end accounting.