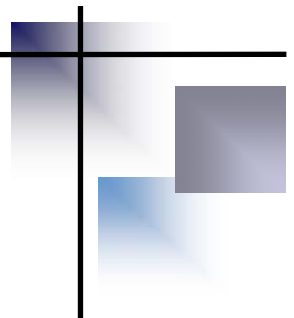




SOUTH EASTERN DEVELOPMENT FOUNDATION ANNUAL REPORT

Fiscal Year 2006
January 1, 2006 – December 31, 2006

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Sioux Falls, SD 57104
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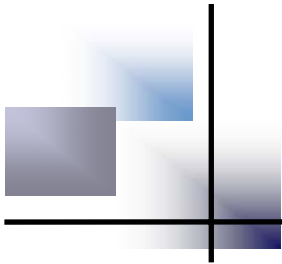


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Board of Directors

DEAN NIELSEN, PRESIDENT

Sioux Falls

Term Expires - 2007

RON NELSON, VICE-PRESIDENT

Sioux Falls

Term Expires - 2009

DAVE BANGASSER, SECRETARY/TREASURER

Sioux Falls

Term Expires - 2009

DE VEE DYKSTRA

Vermillion

Term Expires - 2008

BILL HANSEN

Centerville

Term Expires - 2008



Advisory Board Members

KORY MENKEN, PRESIDENT

North Sioux City
Member Since 2004

JEFF ECKHOFF, VICE-PRESIDENT

Sioux Falls
Member Since 2004

LISA KETCHAM, SECRETARY/TREASURER

Vermillion
Member Since 2004

RITA EDWARDS

Sioux Falls
Member Since 2004

DARWIN MILLER

Salem
Member Since 2004

DIANE SIEPERDA

Sioux Falls
Member Since 2004

MARK SLADE

Sioux Falls
Member Since 2005



Mission Statement

In an effort to provide perpetual opportunities to foster growth, development and regionalization, the South Eastern Development Foundation will focus on improving the overall economic condition in the six county area by providing the tools for rural small business ownership and expansion, job creation and retention and addressing high levels of underemployment in the region. While maintaining a nonprofit status, the Foundation will strive to preserve a diverse portfolio, thereby, allowing the Board of Directors to approve loans in a variety of environments while maintaining the overall integrity of the loan program.



History of the South Eastern Development Foundation

In July of 2001, the South Eastern Council of Governments (SECOG) was urged by several entities to consider the formation of a regional Revolving Loan Fund (RLF). In an effort to determine whether there was a need for this type of entity, SECOG conducted a regional survey including all of the 40 communities and 6 counties it serves. The results of the survey indicated a critical need for a revolving loan fund to be created, especially on a regional basis. Of the entities responding, 87% did not operate or have access to a revolving loan fund. Only two entities indicated that a revolving loan fund existed; however, both entities indicated they had minimal funds available to lend. 67% responded there was a valid need for a regional RLF to be created and 60% would participate in such a fund. Additional entities noted their participation would be based on receiving additional information.

SECOG conducted a second regional survey as part of a Comprehensive Economic Development Strategy (CEDS) to determine economic development needs and priorities within the region. This survey was sent to city and county officials, economic development officials, school officials, utility companies and minorities throughout the region and had a response rate of 86.27% (44 of 51). When asked to provide five keys to improving the region's economy, access to capital was the number one answer provided by those responding.

The results of both surveys indicated that due to a lack of access to capital within the region, viable projects are not able to move forward which results in the loss of new jobs and missed economic opportunities. As a result, the South Eastern Development Foundation was established to fill an unmet need in the lending market.

The South Eastern Development Foundation was incorporated on January 7, 2002, and granted 501 (c) (3) status on June 12, 2002. The original Board of Directors included: Dick Kelly, President from Sioux Falls; Dan Cotton, Vice-President from Beresford; Tom Vogel, Secretary/Treasurer from Vermillion; Jeff Cole from Parker, and W. Tim Kromminga from Dakota Dunes. Lynne Keller was appointed to serve as Executive Director of the organization, and the South Eastern Development Foundation entered into a Technical Services Agreement with SECOG to provide the staffing and day-to-day management of the fund.

The initial goal of the Foundation was to raise \$1,000,000 to capitalize the revolving loan fund and to raise enough grant dollars to fund the operating expenses until the fund was self-sustaining. On September 23, 2003, the South Eastern Development Foundation was notified that it had received a federal HUD-EDI grant in the amount of \$357,660 to capitalize the revolving loan fund. Numerous communities also began contributing grants to capitalize the revolving loan fund in the amount of \$25,000, \$10,000, \$5,000 or \$2,500 depending on the population of the community.

In February 2004, the South Eastern Development Foundation received notification from the U.S. Department of Treasury that it was officially certified as a Community Development Financial Institution (CDFI). CDFIs are able to respond to gaps in the local market that traditional financial institutions are not adequately serving. The CDFI certification assists the Foundation with leveraging additional dollars from financial institutions to carry out the mission of the organization.



2006 Annual Report

CAPITALIZATION

In 2006, the South Eastern Development Foundation received a total of \$333,750 in grant contributions. Of this total, a combined \$40,000 from Citigroup Foundation, Ft. Randall Telephone, and Sioux Valley Hospital was contributed to assist with funding the administration of the housing and economic development revolving loan funds.

The South Eastern Development Foundation received additional grant contributions in the amount of \$293,750 to help capitalize the revolving loan fund. SEDF received combined grant contributions in the amount of \$55,250 from the following 16 communities: Baltic, Canton, Centerville, Crooks, Dakota Dunes, Dell Rapids, Elk Point, Harrisburg, Hartford, Hurley, Marion, Monroe, North Sioux City, Salem, Viborg, and Worthing. The U.S. Department of the Treasury's Community Development Financial Institution (CDFI) Fund awarded \$238,500 in grant funding to the South Eastern Development Foundation.

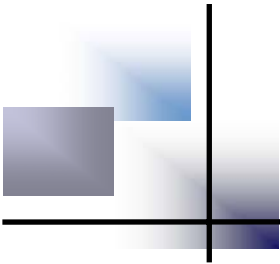
In 2006, the South Eastern Development Foundation secured a total of \$1,211,500 in loan funding to capitalize SEDF's loan fund. The Foundation received a 15-year, \$50,000 loan from First Bank & Trust at 0% interest for the first three years and 1% interest for the remaining term. Dacotah Bank also provided a 15-year, \$50,000 loan at 0% interest for the first three years and 1% interest for the remaining term. SDN Communications provided a 15-year, \$50,000 loan at 3% interest to the South Eastern Development Foundation. The Foundation also received a \$61,500 loan at 0% for a 30-year term from the U.S. Department of Treasury's CDFI Fund. The State of South Dakota provided \$500,000 in REDI (Revolving Economic Development and Initiative) Fund to the Foundation to promote primary job growth in South Dakota. USDA Rural Development presented federal funding to the South Eastern Development Foundation to support business development activities through Intermediary Relending Program (IRP) loan funds of \$500,000. These funds will be leveraged with an applicant contribution of \$166,666 for a total of \$666,666 which will recapitalize the existing revolving loan fund.

ECONOMIC DEVELOPMENT LOANS

The Foundation's Regional Revolving Loan Fund was not created to be in competition with area financial institutions or the State of South Dakota's lending programs. As such, generally a financial institution, one of the lending programs offered through the State of South Dakota or another lending partner must be involved with the project in order to receive financial assistance from the Foundation.

Applicants are able to apply for a \$20,000 to \$150,000 loan to fund the following activities: land, buildings, permanent fixtures, equipment and permanent working capital. Loans are amortized over the useful life of the asset to provide the borrower with the lowest monthly payment possible. All loans have a five-year balloon. The interest rate is set at or near the Prime Rate and is determined quarterly. Once the loan is awarded, the interest rate is fixed for the life of the loan.

In 2006, the South Eastern Development Foundation approved seven loans, one of which was ultimately declined by the applicant, totaling \$598,525 for a total economic impact of \$3,397,778.



Highlights of each project are outlined further in this report. On a cumulative basis, the South Eastern Development Foundation has approved a total of 18 loans, three of which were declined by the applicant.

502 HOUSING LOANS

The 502 Home Loan Partnership Program is a collaborative effort between the South Eastern Development Foundation and USDA Rural Development. This partnership provides loans to low and very low income families to purchase an existing home, build a new home, purchase a new manufactured home from an approved dealer or contractor, or purchase and set up a Governor's House. The 502 Home Loan Partnership Program essentially acts as a lender of last resort for low and very low income individuals seeking homeownership. The purpose of this loan program is to provide financing at reasonable rates and terms, with no down-payment required, to low and very low income families wishing to obtain homeownership outside the city limits of Sioux Falls. The Foundation is able to provide affordable housing programs on a regional basis as opposed to each community attempting to utilize part-time staff and volunteers to address housing shortages. When an applicant is approved for a loan, SEDF contributes 20% of the loan at a rate of 3%, and Rural Development contributes the other 80% at a rate determined by the applicant's income and family status.

The South Eastern Development Foundation approved two housing loans in 2006 totaling \$47,367 for a total economic impact of \$236,834. The 2006 Loan Commitments section provides a breakdown of each of the loans approved. On a cumulative basis, the South Eastern Development Foundation has approved a total of 13 affordable housing loans.

SERVICES

In addition to financial services, the Foundation provided development services to approximately 160 individuals. The services offered by the Foundation included: application assistance and processing, credit analysis, environmental reviews, loan closing, break-even analysis, financial analysis, development services, and general technical assistance. The Foundation provided services to sixty individuals in regards to economic development financing. Approximately one hundred individuals were counseled by the South Eastern Development Foundation in regards to low income housing financing when the South Eastern Development Foundation (SEDF) partnered with USDA Rural Development's Sioux Falls office and John Morrell's to host a 502 Home Loan pre-qualifying session at John Morrell's. John Morrell's employees were provided with information regarding the 502 Home Loan Program, filled out prequalification applications and pre-qualified for loans.

2006 Loan Commitments

Economic Development Loans	Community	Jobs Created or Retained	Amount Financed by SEDF	Private Dollars Leveraged	Total Economic Impact
Bakery	Canton	4	\$45,850	\$29,865	\$75,715
Restaurant	Harrisburg	0	\$79,600	\$0	\$79,600
Restaurant	Hudson	30	\$53,700	\$85,008	\$138,708
Digital/Letterpress Printing	Sioux Falls	2	\$88,525	\$85,086	\$173,611
Retail	Sioux Falls	11	\$152,600	\$560,000	\$712,600
Cabinetry Manufacturer	Tea	0	NA	NA	NA
Retail	Tea	46	\$178,250	\$2,039,294	\$2,217,544
Total		93	\$598,525	\$2,799,253	\$3,397,778

Housing Loans	Community	Number of Homes Financed	Amount Financed by SEDF	Federal Dollars Leveraged	Total Economic Impact
	Baltic	1	\$23,387	\$93,547	\$116,934
	Hartford	1	\$23,980	\$95,920	\$119,900
Total		2	\$47,367	\$189,467	\$236,834

Total Impact in the Region			\$645,892	\$2,988,720	\$3,634,612
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Total Loan Portfolio

ECONOMIC DEVELOPMENT LOANS

Loan Number	Binding Commitment Date	Original Binding Commitment Amount	Actual Binding Commitment Amount
SEDF-1	9/24/2003	\$18,000	\$18,000
SEDF-2	9/24/2003	\$150,000	\$150,000
SEDF-3*	11/2/2004	\$30,000	\$0
SEDF-4	11/8/2004	\$152,572	\$152,572
SEDF-5	1/26/2005	\$51,070	\$51,070
SEDF-6	3/31/2005	\$41,200	\$41,200
SEDF-7	3/31/2005	\$153,500	\$153,500
SEDF-8	4/21/05-8/12/05	\$57,000	\$57,000
SEDF-9	10/7/2005	\$67,000	\$67,000
SEDF-10*	11/17/2005	\$76,500	\$0
SEDF-11	11/17/2005	\$153,000	\$153,000
SEDF-12*	01/18/06	\$26,000	\$0
SEDF-13	03/24/06	\$178,250	\$178,250
SEDF-14	06/21/06	\$53,700	\$53,700
SEDF-15	06/21/06	\$152,600	\$152,600
SEDF-16	09/20/06	\$45,850	\$45,850
SEDF-17	11/15/06	\$88,525	\$88,525
SEDF-18	12/20/06	\$79,600	\$79,600

Total Economic Development Loans:	\$1,574,367	\$1,441,867
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*Declined by borrower

AFFORDABLE HOUSING LOANS

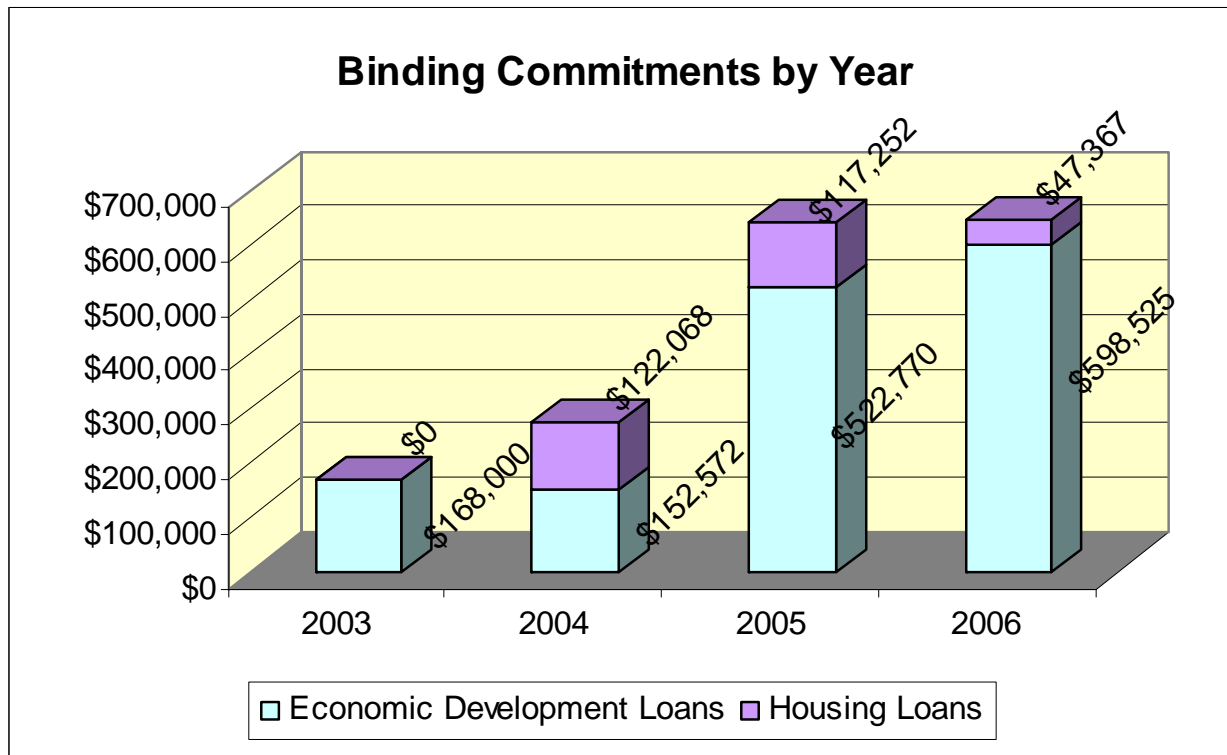
Loan Number	Binding Commitment Date	Original Binding Commitment Amount	Actual Binding Commitment Amount
SEDF-H1	2/9/2004	\$23,589	\$23,589
SEDF-H2	2/9/2004	\$11,979	\$11,979
SEDF-H3	2/18/2004	\$24,360	\$24,360
SEDF-H4	7/26/2004	\$19,400	\$19,400
SEDF-H5	9/13/2004	\$18,000	\$18,000
SEDF-H6	11/16/2004	\$24,740	\$24,740
SEDF-H7	3/29/2005	\$22,136	\$22,136
SEDF-H8	3/29/2005	\$24,740	\$24,740
SEDF-H9	4/25/2005	\$22,900	\$22,900
SEDF-H10	6/10/2005	\$22,736	\$22,736
SEDF-H11	7/26/2005	\$24,740	\$24,740
SEDF-H12	3/17/2006	\$23,980	\$23,980
SEDF-H13	8/17/2006	\$23,387	\$23,387
Total Housing Loans:		\$286,687	\$286,687

Loan Summary

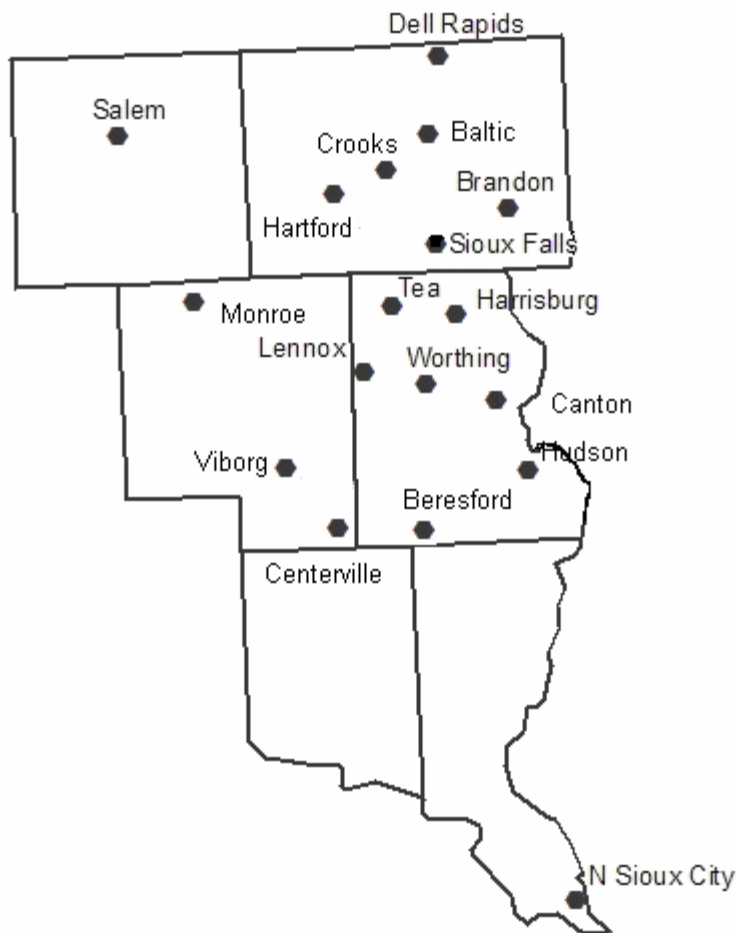
Total Loans Approved to Date: 31

Original Binding Commitment Amount: \$1,861,054

Actual Binding Commitment Amount: \$1,728,554



Communities Served Through 2006





Business Spotlight: Empire Earth, Inc.

Empire Earth, Inc. was incorporated in 2005 to create a new center for business in Tea, SD. Vince McCormick and Todd Ibis are the owners of Empire Earth and are business partners in many other ventures.

The new business complex in Tea consists of Sunshine Foods and the Tea Mall. The Sunshine Foods facility is 18,000 square feet and offers a full grocery store with a number of service amenities including a pharmacy, floral department, videos, and dry cleaning services. The separate Tea Mall complex is an 8,500 square foot facility that houses Farmer's Insurance, Service First Federal Credit Union branch office, a restaurant, and a chiropractic office. The new business complex is located at the corner of Highway 111 and 1st Street in Tea. The location is a high-traffic corridor and is in close proximity to a medical clinic, rehabilitation center, fitness center, flooring outlet store, bank, gas station, florist, bridal shop, hair salon, and various other professional office buildings, churches, and schools.

Mr. McCormick owns six fitness centers and owns and operates a number of other businesses including real estate development and contracting consultant companies. Mr. McCormick has also developed malls in Salem and Lennox. Mr. Ibis serves as the Chief Operations Officer of Push Pedal Pull and owns and operates a number of other business ventures including a real estate development company.

The South Eastern Development Foundation provided financing to Empire Earth for the project in conjunction with Service First Federal Credit Union.





Business Spotlight: Spark Print Solutions, Inc.

Socorro (Bebe) and Craig Stangland own Spark Print Solutions, Inc. The business focuses on three areas: Spark Letterpress, Spark Stationery, and Spark Digital and VDP. Spark Letterpress provides letterpress printing services for business cards, letterhead, brochures, invitations, posters, and more. Spark Stationery provides a product line of letterpress printed greeting cards and custom event invitation albums available in stores nationally. Spark Digital and VDP provides digital printing for short-run jobs and variable data printing (VDP) for customized print collateral. Spark Print Solutions focuses on small to medium-sized projects for local businesses and organizations. The South Eastern Development Foundation provided a portion of the required financing in conjunction with First Bank & Trust.





Business Spotlight: Sport's Zone

Jeff Dougherty and Dave Jennings are the owners of Sports Zone, a new bar and grill in Harrisburg, SD. The restaurant can seat 90 people and has a full-service kitchen to offer a traditional sports bar menu including wings, appetizers and munchies. A full-service bar and video lottery machines are also available. Sport Zone incorporates an array of new and unique arcade games that appeal to children and adults alike. The philosophy behind Sports Zone is to create an atmosphere that is fun for everyone from adults to families with children. Sports Zone has nine televisions and subscribes to the NFL Sunday Ticket package.

This business was made possible in part by a loan from the South Eastern Development Foundation.





Business Spotlight: The Buckaroo, Inc.

David Miller purchased The Buckaroo in Hudson, South Dakota, with the assistance of the South Eastern Development Foundation. Hudson is located 20 miles southeast of Canton. The Buckaroo is a full-service steakhouse that does brisk business on weekends, and is open most evenings except Sundays (and Mondays during the summer months). David's father opened The Buckaroo in 1996 in two renovated Main Street buildings. Over the last decade, David worked in various capacities in the family business including serving as its manager since 2003. The restaurant's exterior and interior have been extensively renovated with a vintage "look and feel" including tinned ceilings, western paintings, and antique-like furnishings.

The food is the number one reason to visit The Buckaroo, which has received enthusiastic reviews and earned a regional reputation for its high quality. The Buckaroo was featured by the Argus Leader as one of the seven best small town places to eat within an hour's drive of Sioux Falls.

The purchase of this business was made possible in part by a loan from the South Eastern Development Foundation and People's Bank in Rock Valley, IA.





Business Spotlight: Theresa's Kitchen

Theresa's Kitchen is a bakery located in Canton, South Dakota and opened for business in November 2006. In order to promote a healthier lifestyle, Theresa's Kitchen does not offer food with preservatives. Although the bakery is not a certified organic bakery, it uses a number of organic ingredients and ingredients produced without bleach. Specifically, Theresa's Kitchen is a full-line bakery offering a number of breads, buns, rolls, pies, cookies, cheesecakes, cakes, organic coffees, turnovers, croissants, and locally produced honey. Theresa's Kitchen sells retail and wholesale products to a number of clients including East Dakota Natural Foods in Sioux Falls and Cleaver's Market in Sioux Falls. This project was financed by the South Eastern Development Foundation in conjunction with First Bank & Trust in Canton.





Business Spotlight: Tire Pros & Service

Tire Pros & Service is a full-service tire shop that offers the following: new and used car, light truck and truck tires, over-the-road tires, farm tires, implement tires, oil changes, transmission flushes, coolant flushes, air conditioning services, wheel alignments, brakes, struts and suspension, custom wheels, car and truck accessories, chrome detailing, and computer diagnostics. Tire Pros & Service prides itself on customer service and fleet pricing.

Dennis and Lynn Thomas are the owners of Tire Pros & Service. Tire Pros & Service is an expansion of the Thomas' Tires, Tires, Tires store in Madison, SD. The couple is working to make Tire Pros & Service another successful investment.

Tire Pros & Service is located on one acre of land at 131 N. Marion Road in Sioux Falls. The 7,000 square foot facility has seven bays and four garage doors. The South Eastern Development Foundation provided a portion of the financing in conjunction with MinnWest Bank and Dakota BUSINESS Finance.

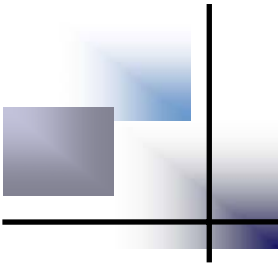




Capitalization 2002-2006

Administration	
2nd District Economic Development Board	\$104,344
HUD-EDI Grant	71,532
Citigroup Foundation	65,000
Ft. Randall Telephone	30,000
Xcel Energy	20,000
Sioux Valley Hospital	15,000
SDN Communications	5,000
South Dakota Housing Development Authority	5,000
CDFI Technical Assistance	3,000
Fannie Mae Corporation	1,000
Sioux Valley Energy	1,000
Total	\$320,876

Housing Revolving Loan Fund Capitalization	
South Dakota Housing Development Authority Loan	\$250,000
HUD-EDI Grant	118,128
Sioux Falls Area Community Foundation	20,000
Total	\$388,128



Economic Development Revolving Loan Fund Capitalization	
Rural Development IRP Loans	\$1,000,000
REDI Funds	500,000
CDFI Financial Assistance Grant	238,500
HUD-EDI Grant	168,000
U.S. Bank Loan	150,000
CDFI Financial Assistance Loan	61,500
1st Financial Bank USA Loan	50,000
Home Federal Bank Loan	50,000
MinnWest Bank Loan	50,000
Dacotah Bank Loan	50,000
First Bank & Trust Loan	50,000
SDN Communications Loan	50,000
The First National Bank in Sioux Falls Loan	45,000
SD Community Foundation	35,000
City of Brandon	25,000
City of Sioux Falls	25,000
City of Vermillion	25,000
City of Canton	12,000
Beresford Economic Development Corporation	10,000
City of Dell Rapids	10,000
City of Elk Point	10,000
City of Harrisburg	10,000
City of Hartford	10,000
City of Lennox	10,000
City of North Sioux City	10,000
City of Parker	10,000
City of Salem	10,000
City of Tea	10,000
Dakota Dunes CID	10,000
City of Baltic	5,000
City of Centerville	5,000
City of Crooks	5,000
City of Marion	5,000
City of Viborg	5,000
City of Worthing	5,000
Greater McCook Development Alliance	5,000
City of Hurley	2,500
City of Monroe	2,500
Total	\$2,735,000



Audited Financial Statements

Year End 2006

STATEMENT OF FINANCIAL POSITION

ASSETS	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash in Checking	\$151,727.75	\$105,971.68
Cash in Reserve	40,283.08	21,153.75
Prepaid Expenses	1,125.77	562.68
Certificate of Deposit	936,756.46	308,239.96
Accounts Receivable	-	57,000.00
Interest Receivable	9,044.88	-
Current maturities of notes receivable	90,117.88	47,750.00
Total Current Assets	<u>1,229,055.82</u>	<u>540,678.07</u>
Fixed Assets:		
Property and Equipment	9,932.49	9,932.49
Accumulated Depreciation	(5,308.96)	(2,162.44)
Total Fixed Assets	<u>4,623.53</u>	<u>7,770.05</u>
Long-Term Assets:		
Notes Receivable	1,560,689.78	1,128,216.30
Less current maturities	(90,117.88)	(47,750.00)
Total Long-Term Assets	<u>1,470,571.90</u>	<u>1,080,466.30</u>
TOTAL ASSETS	<u>\$2,704,251.25</u>	<u>\$1,628,914.42</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Loan Funds committed Not Disbursed	68,377.65	83,229.60
Current Portion of Long-Term Debt	15,562.22	-
Total Current Liabilities	<u>83,939.87</u>	<u>83,229.60</u>
Long-Term Liabilities:		
Prepaid Contributions	1,500.00	4,000.00
Note Payable-FNB SF	45,000.00	45,000.00
Note Payable-SD Housing	250,000.00	250,000.00
Note Payable-USDA	488,169.00	470,506.00
Note Payable-US Bank	150,000.00	-
Note Payable-1st Financial	50,000.00	50,000.00
Note Payable-Home Federal	50,000.00	50,000.00
Note Payable-MinnWest Bank	50,000.00	50,000.00
Note Payable-CDFI	61,500.00	-
Note Payable-REDI Fund	355,838.00	-
Note Payable-First Bank & Trust	50,000.00	-
Note Payable-Dacotah Bank	50,000.00	-
Less: Current Portion of Long-Term Debt	(15,562.22)	-
Total Long-Term Liabilities	<u>1,586,444.78</u>	<u>919,506.00</u>
TOTAL LIABILITIES	<u>1,670,384.65</u>	<u>1,002,735.60</u>
Net Assets		
Unrestricted Net Assets	<u>1,033,866.60</u>	<u>626,178.82</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$2,704,251.25</u>	<u>\$1,628,914.42</u>



Audited Income Statement

Year End 2006

REVENUES	2006	2005
Grants	\$355,083.00	\$156,214.87
Interest income on cash balances	36,155.47	7,763.79
Interest income on notes receivable	89,273.67	29,690.99
Total Revenues	480,512.14	193,669.65
EXPENSES		
Administrative Expense	56,430.00	53,628.02
CDFI Expenses	-	8,694.17
CDFI Marketing Expenses	-	3,000.00
Depreciation Expense	3,146.52	2,162.44
Insurance	840.16	844.00
IRP Interest	3,949.30	2,321.68
US Bank Interest	4,437.50	-
Legal & Professional Fees	1,922.96	2,621.65
Computer Software	1,215.75	-
Other	882.17	928.33
Total Expenses	72,824.36	74,200.29
INCREASE IN NET ASSETS	407,687.78	119,469.36
NET ASSETS -BEGINNING OF YEAR	626,178.82	506,709.46
NET ASSETS -END OF YEAR	\$1,033,866.60	\$626,178.82