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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

July 15, 2008

TO: Executive Board of the Legislative Research Council

FROM: Bob Christianson
State Government Audit Manager

Subject: Information regarding the Cash Flow Fund and income proration

During the June 9, 2008 Executive Board meeting, a request was made to the Department of Legislative Audit for a presentation detailing what the Cash Flow Fund is and the process for prorating investment earnings to the funds.

Cash Flow Fund

When discussing the Cash Flow Fund, we must first correct a common misconception that there is a fund somewhere in state government called the Cash Flow Fund. There is no state statute which has created a fund called the Cash Flow Fund. The Cash Flow Fund, as it has been called, is actually referring to the **pooling of state public funds** by the State Investment Council for investment purposes. As described in SDCL 4-5-23 (see page 3), the State Investment Officer "is responsible for the investment of the state public funds" Using this authority, SDCL 4-5-30 directs that the State Investment Officer "utilizing the facilities of the state budgetary accounting system, shall pool cash accounts within the funds enumerated in § 4-5-23." (emphasis and underline added)

A layperson's description of the Cash Flow Fund would be that it is an account where all of the State's idle monies have been pooled for investment purposes. There is a separate audit report issued by our office for this account. In this report (see *Attachment 1*) we refer to the account as the Cash Flow Portfolio. This is separated from the other managed portfolios because it has specific classes of securities and investments that it can be invested in. Generally speaking, these investments are shorter in duration and less risky so as to not tie up the available cash flow needed to run the state's operations.

As noted on page 5 of *Attachment 1*, the Investment in Cash Equivalents and investments in short and long-term investments for the Cash Flow Portfolio totaled \$841,873,569. The Cash Flow Portfolio's cash and investments is shown broken down by investment type on *Attachment 2* and provides both cost values and fair values (market value).

The Bureau of Finance and Management performs a statewide bank reconciliation for the Cash Flow Fund. As shown on *Attachment 3*, the reconciliation is performed between the Cash Flow Portfolio, at cost, and the State's Accounting System. The State Accounting System balance that was used in the reconciliation to the Cash Flow Portfolio was \$852,808,335.71. *Attachment 4* provides the cash balances of all the companies on the State's Accounting System that make

up the \$852,808,335.71. As shown on *Attachment 4*, the Cash Flow Fund represents the sum of the cash in the General Fund, Property Tax Reduction Fund, Highway Fund, university funds, etc. The appropriations authorized as General, Federal and Other in the General Bill are loaded on the accounting system at this fund level (i.e. against the General Fund, Highway Fund, etc.). Appropriations cannot be made separately from monies in the Cash Flow Fund since, as stated, the Cash Flow Fund is the General Fund, Property Tax Reduction Fund, Highway Fund, university funds, etc.

Income Proration

SDCL 4-5-30 states:

...The Appropriations Committee of the Legislature, upon recommendations from the commissioner of finance and management, shall certify those funds which are to participate in the interest income of the pooled investments. The state investment officer shall credit the gain or interest due as a result of investments made pursuant to § 4-5-29 on a pro rata basis to the participating funds in the same ratio as the average daily cash balance of each fund bears to the total average cash balance of all funds. . . .

The income proration is the distribution of the investment earnings of the Cash Flow Portfolio to the companies on the State Accounting System based upon each company's average daily cash balance. The Bureau of Finance and Management makes the determination of the companies on the State's Accounting System that will participate in the earnings distribution using the following criteria and submits their recommendations to the Appropriations Committee.

General guidelines used by the Bureau of Finance and Management to designate which funds will participate in the earnings distribution.

- 1) State General Fund
- 2) Other Funds that are;
 - a) Generated by dedicated revenue,
 - b) Restricted to a closed system to which additional state appropriations (general funds) are not available; and,
 - c) Not received as payment or appropriations from one entity to another for the cost of specific services or products.
- 3) Federal Funds that are matched with or are used in conjunction with participating funds other than the State General Fund.
- 4) Clearing account funds that are ultimately deposited in a participating fund other than the State General Fund.
- 5) Trust funds that are holding assets upon which interest is paid when the assets are claimed or returned.

A copy of the audit of the Schedule of Income Proration is shown as *Attachment 5*. As shown on page 9 of the report, the distribution of net receipts was \$34,481,518.90. The amount reported in the State Investment Council audit report in *Attachment 1*, page 6, as Distribution to Participating Funds was \$34,578,213. The difference between these two amounts is \$96,694 and represents the School and Public Lands Portfolio's prorata share of the expenses to manage the portfolios at the State Investment Council.

4-5-23. Public funds to be invested by investment officer--Functions transferred--Agreements with risk-sharing entities.

The state investment officer is responsible for the investment of the state public funds as defined in chapter 4-4. All functions, powers, and duties presently vested by law in any officer, official, employee, agency, or commission which relates to the investment of the state public funds and accounts enumerated in this section are transferred to the state investment officer. In addition, the state investment officer may enter into agreements for the investment of cash accounts, reserves, and surplus funds with public entities created for the purpose of risk sharing pursuant to chapter 1-24. These entities' investments shall be restricted as provided in § 4-5-26. The agreements shall provide for the transfer of money from the public entities investment pool to the investment council expense account as provided in § 4-5-30.

4-5-29. Investment officer authorized to make transactions--Duty to protect state interests.

Subject to any limitations, conditions, and restrictions contained in policy making regulations approved by the State Investment Council or contained in state law or the State Constitution, the state investment officer shall have the power to make purchases, sales, exchanges, and investments, for or on behalf of any of the funds referred to in § 4-5-23 and it shall be his duty to see that moneys invested under the provisions of §§ 4-5-12 to 4-5-39, inclusive, are at all times handled in the best interests of the state.

4-5-30. Pooling of cash accounts--Certification by appropriations committee--Prorating of income--Transfer of money to investment council expense fund--Amount.

The state investment officer, utilizing the facilities of the state budgetary accounting system, shall pool cash accounts within the funds enumerated in § 4-5-23. The Appropriations Committee of the Legislature, upon recommendations from the commissioner of finance and management, shall certify those funds which are to participate in the interest income of the pooled investments. The state investment officer shall credit the gain or interest due as a result of investments made pursuant to § 4-5-29 on a pro rata basis to the participating funds in the same ratio as the average daily cash balance of each fund bears to the total average cash balance of all funds.

At the beginning of each fiscal year the state treasurer shall transfer money from the South Dakota retirement fund, cement plant retirement fund, health care trust fund, education enhancement trust fund, the trust fund derived from the sale of state cement enterprises, and any other specific fund approved by the Bureau of Finance and Management, other than the state pooled fund account, to the investment council expense fund, which is hereby created in an amount equal to the ratio of the average assets in each fund for the previous fiscal year to the total average assets managed by the investment council for the previous fiscal year multiplied by the difference between the budget of the investment council for the fiscal year and the beginning cash balance in the investment council expense account. At the beginning of each fiscal year the state treasurer shall transfer money from the pooled income account to the investment council expense account in an amount equal to the ratio of the average daily cash balance of the pooled fund account for the previous fiscal year to total average assets managed by the investment council for the previous fiscal year multiplied by the difference between the budget of the investment council for the fiscal year and the beginning cash balance in the investment council expense account. At the beginning of each fiscal year, the state treasurer shall transfer money from the general fund portion of the pooled income account to the investment council expense account in an amount equal to the ratio of the average daily cash balance of the permanent school and other educational fund provided for in Article VIII of the Constitution for the previous fiscal year to total average assets managed by the investment council for the previous fiscal year multiplied by the difference between the budget of the investment council for the fiscal year and the beginning cash balance in the investment council expense account.

4-5-30.1. State investment officer shall conduct annual estimated and actual proration due to general fund.

Notwithstanding the provisions of § 4-5-30, on or about June first of each fiscal year the state investment officer shall estimate the proration due to the general fund for the next fiscal year. No later than June fifteenth of that fiscal year, the state investment officer shall credit the general fund with an amount equal to ninety percent of the estimated proration due to the general fund for the next fiscal year. At such time that the actual proration to the general fund is determined, the state investment officer shall credit or debit the remaining proration due to the general fund.

SOUTH DAKOTA INVESTMENT COUNCIL

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**

**SOUTH DAKOTA INVESTMENT COUNCIL
TABLE OF CONTENTS**

	<u>Page</u>
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	1
Investment Portfolios:	
Independent Auditor's Report	3
Financial Statements:	
Statement of Net Assets	5
Statement of Changes in Net Assets	6
Notes to the Financial Statements	7



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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**

Executive Board
 Legislative Research Council

and

Investment Council
 State of South Dakota

We have audited the financial statements of the Cash Flow, School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust and Health Care Trust portfolios as of and for the fiscal year ended June 30, 2007 and have issued our report thereon dated September 28, 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 Investment Council'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 Investment Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Investment Council's internal control over financial reporting.

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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Investment Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

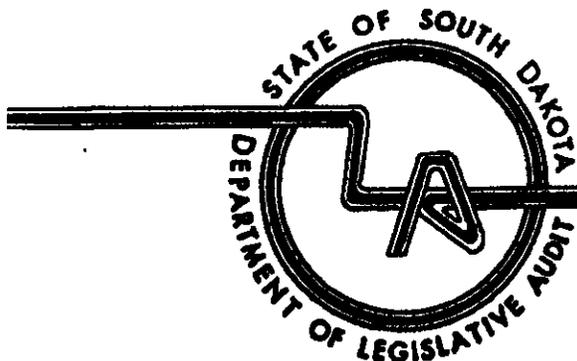
We noted certain matters that we reported to management of the South Dakota Investment Council in a separate letter dated September 28, 2007.

This report is intended solely for the information and use of management, members of the South Dakota Legislature and the citizens of South Dakota 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

September 28, 2007



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

Executive Board
Legislative Research Council

and

Investment Council
State of South Dakota

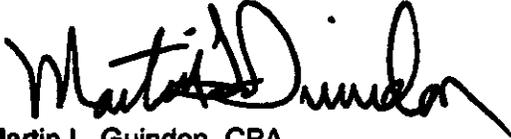
We have audited the accompanying financial statements of the Cash Flow, School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust and Health Care Trust portfolios as of and for the fiscal year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the South Dakota Investment Council (SDIC). Our responsibility is to express an opinion on these 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 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 financial statements present only the above referenced investment portfolios managed by the SDIC and do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2007 and the results of its operations and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the portfolios listed above as of June 30, 2007, and the changes in net assets for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007 on our consideration of the SDIC's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing on 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.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is stylized with a large, looped initial "M" and a long, sweeping underline.

Martin L. Guindon, CPA
Auditor General

September 28, 2007

SOUTH DAKOTA INVESTMENT COUNCIL
STATEMENT OF NET ASSETS
JUNE 30, 2007

841,873,569

ASSETS	Cash Flow Portfolio	School and Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Investment in Cash Equivalents at Fair Value	\$ 73,323,833	\$ 15,644,827	\$ 20,213,584	\$ 4,135,866	\$ 41,313,933	\$ 13,314,426
Investment in Short-Term Securities at Fair Value	226,154,873	6,923,438	259,908,296	259,196	378,891,389	96,677,300
Investment in Long-Term Securities at Fair Value	542,394,863	154,296,302	48,650,671	50,433,935	2,288,957	514,135
Other Investments	3,703,674	38,917,465	1,462,378	4,275,332	4,600,000	1,100,000
Securities Lending Collateral	150,870,220	796,961	330,234,929	62,437,677	427,094,279	111,605,861
Investment Income Receivable	10,421,121	1,800,000				
Unsettled Investment Sales						
TOTAL ASSETS	1,003,164,910	222,082,667	330,234,929	62,437,677	427,094,279	111,605,861
LIABILITIES						
Unsettled Investment Purchases				3,225,708		
Earnings Distribution - Declared	22,208,674					
Loan Collateral Payable	150,870,220	38,917,465	48,650,671	4,275,332		
TOTAL LIABILITIES	173,078,894	38,917,465	48,650,671	7,501,040		
NET ASSETS	\$ 830,086,016	\$ 183,165,202	\$ 281,584,258	\$ 54,936,637	\$ 427,094,279	\$ 111,605,861

The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA INVESTMENT COUNCIL
STATEMENT OF CHANGES IN NET ASSETS
 For the Fiscal Year Ended June 30, 2007

	Cash Flow Portfolio	School and Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Additions:						
Contributions	\$ 29,958,903	\$ 6,481,495	\$	\$ 6,000,000	\$ 3,846,057	\$ 3,962,605
Investment Earnings	34,355,033	4,301,087	6,944,144	736,283	8,970,414	2,476,762
Interest on Bonds	1,614,466					
Interest on Time Savings						
Dividends		2,080,133	3,234,089	700,802	4,641,396	1,178,443
Real Estate Income		105,804	170,928	86,282	244,871	60,517
Security Lending Income	8,374,502	2,096,631	3,060,117	188,479		
Net Realized Gain (Loss) on Investments	774,204	5,249,652	11,126,507	3,067,789	17,329,325	3,957,162
Net Unrealized Appreciation (Depreciation) on Investment	8,102,493	12,368,746	17,190,201	4,560,447	22,072,525	6,111,650
Net Investment Earnings	<u>53,220,698</u>	<u>26,142,063</u>	<u>41,745,986</u>	<u>9,360,062</u>	<u>53,258,531</u>	<u>13,784,534</u>
Total Additions	<u>83,179,601</u>	<u>32,623,558</u>	<u>41,745,986</u>	<u>15,360,062</u>	<u>57,104,588</u>	<u>17,747,139</u>
Deductions:						
Withdrawals				2,732,849		
Securities Lending Expenses	8,251,391	2,000,310	3,023,559	181,394		134,161
Contractual Services	498,115	132,463	372,101	145,213	830,136	
Distribution to Participating Funds	34,578,213	10,477,301	12,571,476		14,986,028	3,801,228
Total Deductions	<u>43,327,719</u>	<u>12,610,074</u>	<u>15,967,136</u>	<u>3,059,456</u>	<u>15,816,164</u>	<u>3,935,389</u>
Change in Net Assets	<u>39,851,882</u>	<u>20,013,484</u>	<u>25,778,850</u>	<u>12,300,626</u>	<u>41,288,424</u>	<u>13,811,750</u>
Net Assets						
Beginning of Year	<u>790,234,134</u>	<u>163,151,718</u>	<u>255,805,408</u>	<u>42,636,011</u>	<u>365,805,855</u>	<u>97,794,111</u>
NET ASSETS END OF YEAR	<u>\$ 830,086,016</u>	<u>\$ 183,165,202</u>	<u>\$ 281,584,258</u>	<u>\$ 54,936,637</u>	<u>\$ 427,094,279</u>	<u>\$ 111,605,861</u>

The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT PORTFOLIOS
NOTES TO THE FINANCIAL STATEMENTS**

1. **Reporting Entity:**

The South Dakota Investment Council (SDIC) is a principal, functional sub-unit of state government. The SDIC is responsible for the investment of the state's monies in the state treasury. The SDIC provides investment management services on a prefunded cost recovery basis as authorized by South Dakota Codified laws (SDCL) 4-5-30.

The statements represent the financial activity of the Cash Flow, School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust and the Health Care Trust portfolios. The statements report investments by each portfolio. The Cash Flow portfolio represents the state's aggregate idle fund monies for all state funds, except for certain funds for which separate portfolios have been established. The School and Public Lands portfolio represents assets held in permanent school funds. The Dakota Cement Trust portfolio represents proceeds from the sale of the South Dakota Cement Plant. The Cement Plant Retirement Fund pays retirement benefits to former employees of the previously owned State Cement Plant. The Education Enhancement Trust portfolio represents assets held in trust from the master settlement agreement between the State of South Dakota and major United States tobacco product manufacturers. The Health Care Trust portfolio represents assets held in trust from federal reimbursement for Medicaid and Medicare costs associated with publicly owned and operated nursing facilities. In addition, the Education Enhancement Trust and the Health Care Trust portfolios received contributions from tobacco tax revenue in fiscal year 2007 for \$3,846,057 and \$3,982,605, respectively, which increased the principal values in the trusts.

2. **Summary of Significant Accounting Policies:**

a. **Basis of Presentation:**

The accompanying financial statements of the investment activity of the SDIC are prepared in accordance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

b. **Basis of Accounting:**

The financial statements on the portfolios are reported on the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred. Security transactions and the related gains and losses are recorded on a trade date basis, using the average cost method. Purchases and sales of foreign investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the Statement of Changes in Net Assets. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned.

c. Valuation of Securities:

Investments are reported at fair value, which approximates market value, in accordance with GASB Statement No. 31. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair values for the fixed income securities are obtained from Bloomberg Financial Markets, Merrill Lynch, and Citigroup Global Markets. Domestic and Canadian equity security fair values are obtained from FT Interactive Data's IDSI™ Services, and non-Canadian foreign equity security values and spot foreign currency exchange rates are obtained from HSBC Securities. Investments denominated in foreign currencies and foreign currency cash balances are translated into U.S. dollars using the year-end spot foreign currency exchange rates. Other cash equivalents are valued at cost plus accrued interest. Fair values of foreign currency forward contracts are obtained from Bloomberg Financial Markets. Fair values of limited partnership investments are based on valuations on the underlying companies of the limited partnerships as reported by the general partner.

3. Deposits, Investments and Securities Lending:

The State Investment Officer is responsible for the investment of state public funds. State public funds in the Cash Flow portfolio are invested using the pooled deposit and investment concept which preserves the integrity of the fund cash balances of each state fund while simultaneously allowing the deposit and investment of aggregate idle fund monies. The Cash Flow portfolio may be invested in the following classes of securities and investments and not otherwise:

- (1) Direct and indirect obligations of the United States government.
- (2) Agencies and instrumentalities of the United States government.
- (3) Direct obligations of the State of South Dakota and any of its political subdivisions.
- (4) Obligations consisting of notes, bonds, debentures, and certificates which are direct obligations of a solvent corporation or trust existing under the laws of the United States or any state thereof, if such investments are rated in the four highest classifications established by at least two standard rating services; or
- (5) Savings accounts, share accounts, certificates of deposit of banks, savings and loan associations, building and loan associations and bankers' acceptances.
- (6) In addition to the investments authorized by subdivisions (1) to (5) of this section, inclusive, the investment council may also allocate a sum certain of state public funds for investment in the accounts and certificates of South Dakota banks and associations. This sum shall initially be offered to South Dakota banks and associations, and if not initially fully subscribed, the investment officer shall immediately reoffer the unsubscribed sum to other qualified public depositories. "Qualified public depository" is a state bank and loan association or federally chartered credit union located in this state which receives or holds public deposits and segregates eligible collateral for public deposits.

The remaining portfolios are governed by the prudent man rule; that is, the SDIC should use the same degree of care as a prudent man. The SDIC dictates the limits on the percent the portfolios invest in various asset classes.

Deposits:

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Cash Flow portfolio's certificates of deposit and other deposits in state financial institutions in excess of depository insurance must be 100% collateralized. Collateral is valued at the lower of cost or market as reported in the quarterly call reports prepared by the qualified public depositories pursuant to SDCL 4-6A-7. Collateral is required to be segregated by each depository as approved by the South Dakota Public Deposit Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve. At June 30, 2007, pledged collateral for seven depositories did not equal at least 100 percent of the total public deposits in excess of depository insurance. As a result, \$108,302.91 of the Cash Flow portfolio's certificates of deposit was exposed to custodial credit risk.

The SDIC has no formal deposit policy specific to custodial credit risk for the School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust, and Health Care Trust portfolios. At June 30, 2007, these portfolios had bank balances in various foreign currencies. These deposits are not collateralized or covered by depository insurance. As a result, the following amounts were exposed to custodial credit risk:

	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Foreign Currency Balances	\$1,008,024	\$2,155,030	\$181,024	\$3,832,994	\$760,174

Investments:

Securities Lending. State statutes and the SDIC policies permit the use of investments for securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities for collateral in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The SDIC's securities custodian is an agent in lending securities and shall accept only cash and government securities as collateral for any loan or loaned securities. The maintenance percentage with respect to such loaned securities shall be 100% plus accrued interest for government securities, 102% plus accrued interest for corporate debt securities and 102% for equity securities.

The cash collateral is reinvested by the lending agent in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in the net earnings from lending activities, which is then split on a percentage basis with the lending agent.

At year-end, the SDIC has no credit risk exposure to borrowers because the amounts the SDIC owes the borrowers exceed the amounts the borrowers owe the SDIC. The contract with the lending agent requires the agent to indemnify the SDIC if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

All securities loans can be terminated on demand by either the SDIC or the borrower. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short-term investments. The ability to pledge or sell collateral securities can be made without borrower default. In addition, no restrictions exist on the amount of the loans.

These loans are part of the investment portfolios. Collateral consisting of cash valued at 102 percent of the market value of the securities loaned were placed in the SDIC Trust Account for the securities lending program.

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 of investment or collateral securities that are in the possession of an outside party. The securities lending collateral at June 30, 2007 is presented in the following schedule of custodial credit risk. The investments were uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in South Dakota's name. The SDIC's securities lending policies are detailed in the preceding Securities Lending section.

	Cash Flow Portfolio	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio
Securities Lending Collateral	\$150,670,220	\$38,917,465	\$48,650,671	\$4,275,332

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SDIC policy limits or establishes ranges for the durations of the fixed income portfolios held by the various funds. Modified duration estimates the sensitivity of a bond's price to interest rate changes. The Cash Flow portfolio policy limits average portfolio duration to 2.88 years, and no holding's maturity can exceed 5 years. The Cement Plant Retirement investment-grade fixed income portfolio's duration must fall between 70% and 130% of the duration of the Citigroup Broad Investment Grade (BIG) Index. The investment-grade fixed income portfolios of Dakota Cement Trust, Health Care Trust, Education Enhancement Trust, and School and Public Lands are benchmarked to the duration of the Citigroup Broad Investment Grade (BIG) Index. The weighted modified durations (in years) of the various funds are listed in the following table.

Investment Type	Cash Flow Portfolio		School & Public Lands Portfolio		Dakota Cement Trust Portfolio	
	Fair Value	Wgtd. Mod. Dur.	Fair Value	Wgtd. Mod. Dur.	Fair Value	Wgtd. Mod. Dur.
U.S. Treasuries	\$80,507,149	1.35	\$10,133,012	8.94	\$16,798,553	4.18
U.S. Treasury Inflation Protected Securities			11,184,037	3.80	18,593,461	3.80
U.S. Agencies	270,813,532	1.57	14,820,263	3.34	10,985,941	10.07
U.S. Government-backed loans			3,715,858	10.62		
Investment grade corporate notes & bonds	412,734,899	1.89			22,168,867	4.56
High-yield notes & bonds					2,808,828	5.03
High-yield bond mutual fund			1,770,454	5.00		
Mortgage-backed securities			23,882,413	4.71	35,092,734	4.83
Commercial paper			2,992,117	0.05	3,989,490	0.05
Total	\$744,055,580		\$88,478,154		\$110,437,872	
Portfolio modified duration		1.61		5.01		4.79

Investment Type	Cement Plant Retirement Portfolio		Education Enhancement Trust Portfolio		Health Care Trust Portfolio	
	Fair Value	Wgt'd. Mod. Dur.	Fair Value	Wgt'd. Mod. Dur.	Fair Value	Wgt'd. Mod. Dur.
U.S. Treasuries	\$1,017,483	7.80	\$1,138,310	6.41	\$3,571,945	6.41
U.S. Treasury Bills	99,084	0.21				
U.S. Treasury STRIPS	283,410	15.71	913,496	8.90	2,868,044	8.90
U.S. Treasury Inflation Protected Securities			27,020,813	2.96	6,825,498	2.75
U.S. Agencies	858,368	6.14	1,540,461	6.50	4,763,445	6.52
Investment grade corporate notes & bonds	1,800,366	4.00	2,510,741	3.20	7,877,084	3.20
High-yield notes & bonds	554,194	5.02				
High-yield bond mutual fund			3,913,811	5.00	1,059,568	5.00
Mortgage-backed securities	3,369,912	4.62	3,990,481	4.68	12,600,370	4.67
Municipal bonds			116,125,935	5.70		
Commercial paper			19,984,882	0.02	5,694,208	0.02
Total	\$7,982,835		\$177,138,330		\$45,258,160	
Portfolio modified duration		5.39		4.59		4.07

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SDIC policy establishes a percentage range and a normal allocation to various credit risk categories. The Cash Flow portfolio actively managed portion can invest 4% of the portfolio into each corporate security rated Aaa or Aa, 2% in A-rated, 1% in Baa1 or Baa2, and 0.5% in individual holdings of corporate securities rating Baa3. The maximum overweight of Baa3 rated holdings versus the benchmark is 5% of the Cash Flow portfolio. The SDIC sets the investment policy annually for the Dakota Cement Trust, School and Public Lands, Cement Plant Retirement, Education Enhancement Trust, and Health Care Trust portfolios. This policy establishes the average percentage invested in each asset category and the fund allocation range that each asset category can vary during the fiscal year. As of June 30, 2007, the portfolios held the following investments, excluding those issued by or explicitly guaranteed by the U.S. Government, which are not considered to have credit risk. The investments are grouped as rated by Moody's Investors Service.

	Cash Flow Portfolio	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Moody's rating:	<u>Fair Value</u>	<u>Fair Value</u>	<u>Fair Value</u>	<u>Fair Value</u>	<u>Fair Value</u>	<u>Fair Value</u>
Aaa	\$343,616,779	\$26,470,590	\$55,379,769	\$7,820,278	\$91,694,465	\$21,679,779
Aa	155,337,693		5,021,508	646,832	39,204,991	3,864,977
A	239,659,616		3,861,718	317,354	4,488,583	1,054,186
Baa	12,793,451		9,313,957	592,621	572,548	1,794,795
Ba			2,559,937	571,077		
B			248,888	48,596		
P-1		2,992,117	3,869,490		19,984,682	5,694,206
Unrated		1,770,454	1,942,286	97,114	7,917,252	1,618,947
Total	\$751,707,539	\$31,233,161	\$62,317,551	\$10,093,872	\$163,862,501	\$35,708,890

Concentration of Credit Risk. Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Cash Flow portfolio does have a policy in place limiting its investments in individual holdings. Information regarding the Cash Flow portfolio policy is located under the Credit Risk section. The SDIC does not have a formal policy in place to limit investments in any particular issuer for the Dakota Cement Trust, School and Public Lands, Cement Plant Retirement, Education Enhancement Trust, and Health Care Trust portfolios. Additionally, there are no single issuer exposures (excluding those issued by or explicitly guaranteed by the U.S. Government, or involving mutual funds or investment pools) within the portfolios that comprise 5% of the overall portfolios as of June 30, 2007.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust, and Health Care Trust portfolios' exposure to foreign currency risk derives from their positions in foreign currency and foreign currency-denominated equity investments. To match the unhedged benchmark, the SDIC's normal policy is not to hedge foreign currency back to U.S. dollars. Policy does allow hedging under certain circumstances when deemed appropriate by the State Investment Officer and portfolio manager. The portfolios' exposure to foreign currency risk at June 30, 2007, was as follows (in U.S. dollar fair values):

	School & Public Lands Portfolio		Dakota Cement Trust Portfolio		Cement Plant Retirement Portfolio	
Currency	Equities	Cash	Equities	Cash	Equities	Cash
British Pound	\$2,993,521	\$72,189	\$5,128,799	\$390,643	\$2,681,162	\$18,461
Canadian Dollar					297,581	60,630
Danish Krone						142
Euro	4,115,486	380,588	6,638,892	776,910	3,052,188	52,009
Japanese Yen	1,324,742	83,774	2,800,931	873,200	1,367,879	6,789
Korean Won					365,488	
Mexican Peso					40,797	17,605
Singapore Dollar						1,140
Swedish Krona						2
Swiss Franc	342,214	471,473	1,627,415	314,377	980,827	12,248
Total	\$9,775,962	\$1,008,024	\$18,196,037	\$2,155,030	\$8,805,892	\$161,024

	Education Enhancement Trust Portfolio		Health Care Trust Portfolio	
Currency	Equities	Cash	Equities	Cash
British Pound	\$7,245,346	\$525,268	\$2,333,342	\$35,252
Euro	9,154,456	1,042,994	2,684,323	302,309
Japanese Yen	3,715,573	482,320	981,760	122,112
Swiss Franc	1,601,939	1,602,412	456,285	300,501
Total	\$21,717,313	\$3,632,994	\$6,355,710	\$760,174

Investments with outside managers, which are not included in the table above, may expose the portfolios to additional foreign currency risk. The fair values of externally-managed global equity and arbitrage equity investments and investments in real estate and private equity limited partnerships were as follows (in U.S. dollar fair values):

	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Global Equity			\$1,482,310		
Arbitrage Equity			2,254,550		
Real Estate & Private Equity	\$12,771,777	\$20,621,722	9,898,303	\$29,699,193	\$7,445,137
Total	\$12,771,777	\$20,621,722	\$13,313,163	\$29,699,193	\$7,445,137

4. Rate of Return:

The percentage rate of return for fiscal year 2007 for the Cash Flow, School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust and Health Care Trust portfolios were 4.4%, 14.8%, 15.1%, 20.6%, 14.4% and 14.7%, respectively. The Cash Flow portfolio percentage was derived by dividing the total investment income by the average daily investment balances. The other percentages were derived using the time-weighted rate of return calculation and the geometric linking of those returns.

5. **Derivatives:**

Derivatives are generally defined as contracts whose values depend on, or derive from, the value of an underlying asset, reference rate, or index. The SDIC's portfolios are exposed to various derivative products through the investment management of the SDIC and its outside managers.

The SDIC purchases and sells financial and interest rate futures as a means of adjusting the Cement Plant Retirement portfolio mix at a lower transaction cost than the transactions which would otherwise occur in the underlying portfolios. Futures contracts outstanding at June 30, 2007 were as follows:

Description	Expiration Date	Open Position	Number of contracts	Fair Value
S&P 500 Index	September 2007	Short	3	(\$1,127,513)
US Treasury Note	September 2007	Long	9	\$1,023,840
WTI Crude	July 2007	Short	2	(\$141,360)
WTI Crude	August 2007	Short	3	(\$212,040)
WTI Crude	September 2007	Short	2	(\$141,360)

A futures contract is a contract to buy or sell units of an index or financial instrument at a specified future date at a price agreed upon when the contract is originated. Upon entering into such a contract, the Cement Plant Retirement portfolio pledges to the broker cash or U.S. Government securities equal to the minimum "initial margin" requirement of the futures exchange. Additionally, the Cement Plant Retirement portfolio receives or pays a daily "variation margin", which is an amount of cash equal to the daily fluctuation in value of the contract. The use of futures contracts is subject to various market risks. The maximum amount at risk from the purchase (long position) of a futures contract is the contract value. The amount at risk from the sale (short position) of a futures contract depends upon the amount the contract increases in value. Although short positions have theoretically no maximum risk, the Cement Plant Retirement portfolio's short positions are hedged against the underlying portfolio to limit the exposure. Each S&P 500 contract is defined as 250 times the price of the S&P 500 index. Each note and bond contract is defined as 100,000 par value of a 6 percent U.S. Treasury security adjusted for duration. Each WTI Crude contract is defined as 1,000 times the price of the West Texas Intermediate (WTI).

The SDIC enters into foreign exchange forward contracts for the Cement Plant Retirement portfolio to hedge foreign currency exposure and to reduce the impact of foreign currency fluctuations. The SDIC does not engage in foreign currency speculation. The contracts do not subject Cement Plant Retirement portfolio to risk due to exchange rate movements as gains and losses on the contracts offset gains and losses on the positions being hedged. Cement Plant Retirement portfolio's theoretical risk in these transactions is the cost of replacing, at current market rates, these contracts in the event of default by the other party. SDIC believes the risk of incurring such losses is remote as the contracts are entered into with major financial institutions.

The School and Public Lands, Cement Plant Retirement, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust fixed income portfolios invest in mortgage-backed securities in the form of GNMA's and FNMA's. These securities are sensitive to prepayments by mortgagees, which is likely in declining interest rate environments, thereby reducing the value of these securities. The SDIC invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding the interest rate risks for these investments are included with the interest rate risk disclosures.

6. Proration of Investment Income:

The cash income received from pooled investments in the Cash Flow portfolio is prorated to state funds which have been certified as participating funds by the Legislative Appropriations Committee. The cash income is prorated to each individual participating fund using the ratio of its average daily cash balance to the total average daily cash balance of all funds. The income is distributed to the participating funds, except the General Fund, in the next fiscal year. The General Fund is credited 90% of the estimated proration in June and the remaining portion in the following fiscal year as provided by law.

The cash income received from investments in the School and Public Lands portfolio is distributed to the trust funds administered by the Department of School and Public Lands.

The cash income from investments in the Dakota Cement Trust and Cement Plant Retirement portfolios is received and deposited into the respective trust funds. Annual distributions are made from the Dakota Cement Trust to the State General Fund. Monthly distributions are made from the Cement Plant Retirement portfolio to a third party administrator that pays retirement benefits to former Cement Plant employees.

The cash income from investments in the Education Enhancement Trust and Health Care Trust portfolios is received and deposited into the respective trust funds. At the end of each fiscal year, amounts equal to four percent of the market value of the Education Enhancement Trust and the Health Care Trust portfolios are transferred to the State General Fund. The transfer amount cannot invade the principal of either trust.

Amounts equal to the Cement Plant Retirement, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios' pro rata shares of the SDIC fiscal year budgeted expenditures are transferred to the SDIC Operating Expense Fund. An amount equal to the Cash Flow and School and Public Lands portfolios' pro rata share of the SDIC fiscal year budgeted expenditures is deducted from the Cash Flow portfolio income and transferred to the SDIC Operating Expense Fund.

	<u>Cost</u>	<u>Fair Value</u>
Fixed Income Securities		
Treasuries	59,815,038.31	59,730,468.75
US Agencies	269,518,964.44	267,310,015.25
Corporate Notes	411,177,304.97	407,476,252.35
	<u>740,511,307.72</u>	<u>734,516,736.35</u>
Cash Equivalents		
Commercial Paper	0.00	0.00
CD's	34,033,000.00	34,033,000.00
Demand Deposits	7,332,136.29	7,332,136.29
Mutual Funds		
Blackrock Temp Fund	67,945,763.43	68,159,108.65
Total State Assets Reported	<u>849,822,207.44</u>	<u>844,040,981.29</u>
Apportionment from S&PL	5,640.64	5,640.64
Portfolio transfers	(2,172,433.22)	(2,173,052.96)
Total Cash Flow Portfolio	<u>847,655,414.86</u>	<u>841,873,568.97</u>
Total State Assets Reported	849,822,207.44	
Purchased Interest at Investment Council	461,910.66	
State Assets Total Used for Bank Reconciliation	<u>850,284,118.10</u>	

This would be the fair value of the cash/investments reported on page 5 of Attachment 1

→ To ATTACHMENT 3

STATEMENT OF BANK RECONCILIATION
 CASH FLOW FUND - CENTRAL ACCOUNTING SYSTEM & STATE TREASURER
 FOR THE MONTH ENDING JUNE 30, 2007

FINAL	State Assets in Cash and Investments State Treasurer	Outstanding Warrants	State Accounting System
Total State Assets In Cash and Investments	\$ 850,284,118.88		\$ -
CENTRAL ACCOUNTING SYSTEM:			
MSA Pooled Cash			809,695,185.50
MSA Restricted Cash			43,113,150.21
Total MSA Cash			852,808,335.71
Less Outstanding Warrant Cash Balance	(29,784,853.60)	29,784,853.60	(29,784,853.60)
MSA Cash Balance less Outstanding Warrant Fund			823,023,482.11
Adjustments to Outstanding Warrants:			
Auditor log warrant timing differences		(89,241.02)	(89,241.02)
Warrants paid by the bank on June 30		(4,278,234.21)	(4,278,234.21)
Misc timing difference		(0.15)	(0.15)
AUD ACH	(18,091.22)	18,091.22	
Retirement timing difference	0.00		
Payroll timing difference	(802,536.15)	802,536.15	
Medicaid timing difference	(224,486.36)	224,486.36	
Child Support timing difference	(1,045,113.73)	(3,322,361.65)	
Adjustments to Outstanding Warrants	(30,829,967.33)	26,462,491.95	
Adjusted Outstanding Warrants			
Adjustments to Receipts:			
Cash Receipts in Bank at June 30, not on MSA until July			5,883.00
Deposits in Transit, Agency had cash but it was not in the bank at June 30 - the document posted to MSA in June	2,996.55		
Other Agency Adjustments:			
AUDITOR (Auditor logs - Internal difference between 9000 and agency cash)			2,358.53
BFM	(2,172,433.22)		(251.39)
BOP			20,315.44
CASHREC/INVEST			14.16
CENTPAY			246.92
DOL			89,530.85
DOR			(1,497,257.66)
DOSS			8,244.58
HEBOR			(625.61)
HEBHSU			(2.00)
HESDSU			(2,405.75)
HEUSD			5,640.64
S&PL			469.79
TCSADJ			(3,453.35)
TOURISM			
TOTAL CASH FLOW FUND	<u>\$ 817,284,714.88</u>		<u>\$ 817,284,714.88</u>

STATE ACCOUNTING SYSTEM BALANCES

ATTACHMENT 4

Company Number	Company Name	Cash with State Treasurer at 6/30/07
1000	State General Fund	82,439,970.79
2001	Regents Central Office-Federal	274,530.43
2002	DENR-Federal	(1,567,953.82)
2003	Federal Fund-Dept. of Human Services	(1,007,591.43)
2004	Social Services-Federal	(7,238,744.78)
2006	Attorney General-Federal	(575,493.83)
2007	Secretary of State-Federal	11,151,658.82
2008	Tourism & Development-Federal	(218,438.43)
2010	Tourism, Arts & History - Federal	(8,390.00)
2012	Dept. of Labor-Federal	114,098.23
2013	School For Deaf-Federal	1,270.69
2014	SDSBVI - Federal	(55,635.57)
2016	Public Utilities Commission - Federal	7,881.66
2018	Dept. of Health - Federal	(109,561.85)
2019	Dept. of Agriculture - Federal	361,622.86
2021	Dept. of Corrections - Federal	1,739,975.73
2023	Game, Fish and Parks - Federal	2,332,259.93
2024	DECA - Federal	3,908.05
2025	Military Affairs - Federal	(673,940.25)
2026	Animal Industry Board - Federal	754,666.51
2027	Public Safety - Federal	(229,716.94)
2029	Game, Fish and Parks - Federal	6,560,439.97
2030	Military Indirect Costs-Federal	41,906.19
2031	Unified Judicial System - Federal	(7,466.95)
2033	Transportation - Federal	6,703,338.88
2034	Bureau of Administration - Federal	1,869,473.70
2035	Public Safety - Emergency Management	(171,582.33)
3000	Attorney General - Other	846,910.55
3001	School and Public Lands - Other	263,532.16
3002	Wheat Commission	646,111.09
3006	Dept. of Tourism - Other	345,042.31
3007	Statewide Maintenance and Repair	2,548,329.13
3008	SDPB/Tower Rent	1,367.72
3010	Law Enforcement Revolving	(638,315.43)
3011	Other Funds	645,072.97
3012	Unified Judicial System - Other	1,988,692.70
3013	Secretary of State - Other	56,518.05
3014	PUC - Other	152,475.06
3015	Private Activity Bond Fund	1,306,246.66
3016	Future Fund	17,827,298.28
3017	Investment Office Operations	1,655,631.38
3021	Veterans' Home L&E	97,631.49
3023	Corrections L&E	2,956,734.19
3026	SD Public Broadcasting - Other	325,427.87
3027	SDPB - PBC	282,163.31
3029	Extraordinary Litigation Expense Fund	(368,753.64)
3030	Employment Security Contingency	150,804.10
3032	School For Deaf - Other	775,089.51
3033	Property Tax Reduction	89,276,269.12
3034	School for Visually Handicapped (SPL)	28,548.41
3035	Insurance Administration	26,335,883.78
3036	Petroleum Release Compensation	5,723,679.98
3037	S. D. Gaming Commission Fund-Commerce	786,590.08
3038	Tax Relief Fund	883,065.88
3040	State Highway Fund	13,534,703.14
3041	Aeronautics	6,731,032.31
3042	Railroad	3,013,744.02
3043	Public Transit and T3	3,169,962.16
3044	Railroad Trust	16,719,637.17
3046	Dept. of Human Services - Other	3,080,398.23
3047	Health - Other	2,280,716.17
3048	Boiler Inspection Fund	25,622.28
3049	Tobacco Prevention & Reduction	4,361,568.20

STATE ACCOUNTING SYSTEM BALANCES

ATTACHMENT 4

Company Number	Company Name	Cash with State Treasurer at 6/30/07
3050	Agriculture Services Revolving	1,886,831.69
3052	Rural Rehabilitation	5,110,259.60
3053	American Dairy Association	584,951.05
3054	Oilseeds/Soybean Fund	3,011,077.61
3055	Corn Utilization Council	1,403,629.60
3056	Agriculture Revolving Fund	728,874.73
3057	Brand Board	1,271,248.75
3059	Fire Suppression	(3,389,858.98)
3060	Fire Equipment Shop	4,087.62
3061	Soil Conservation Districts	38,749.24
3062	Land Reclamation	100,000.00
3063	Pesticide Recycling & Disposal	1,738,381.55
3072	Other Funds - Participating	11,082,111.78
3073	Water and Environment	10,183,512.02
3074	Other Funds - Non-Participating	(42,280.45)
3076	Revenue - Other	277,618.51
3078	Energy Development Impact	135,372.44
3079	DSS - Local Donated	8,457,043.00
3080	Catastrophic County Poor Relief	631,195.15
3085	Higher Education Facilities Fund	11,697,549.83
3090	SDRS Supplemental Retire Admin	153,114.34
3091	DHS/VR Telecommunication	1,980,962.03
3095	School for the Deaf - Other	97,959.00
3107	SDSBVI - Other	426,059.56
3113	Maintenance & Repair	2,691,543.55
3121	GF&P Administration	355,817.32
3122	Game and Fish Fund	18,216,516.38
3123	Predator Animal Control	373,687.29
3124	GF&P Land Acquisition Fund	49,019.92
3125	Parks And Recreation	17,785,713.02
3126	Snowmobile Trails Fund	1,450,868.62
3128	PUC Other Funds - Informational	2,001,598.38
3138	Education and Cultural - Other	5,347,366.03
3139	Office of History - Other	187,069.90
3143	Fine Arts	7,289.30
3144	Public Safety - Other	(171,450.79)
3145	Historical Preservation Grant & Loan	367,275.33
3146	State Library	170,533.33
3147	National Guard Museum	139,573.82
3148	Military and Veterans' Affairs - Other	243,508.02
3149	Veterans Funds	100,858.84
3150	Animal Industry Board	5,701.94
3151	Livestock Disease Emergency	1,703,088.01
3177	Motor Vehicle Fund	2,642,031.03
3178	Energy Conservation Fund	8,841,939.60
3181	Banking	43,691.83
3183	Insurance and Securities	294,200.54
3184	Motorcycle Ed/Appraisers	179,019.66
3185	Bred Racing	569,087.19
5008	Inmate Funds	39,061.52
5016	Resident Investment	73,753.37
5017	Veterans's Home Resident Investment	199,891.08
5020	School For Deaf Investment	17,570.05
6001	Information Services	1,440,404.96
6002	Telecommunications	1,666,001.68
6003	Records Management	156,413.74
6004	Buildings And Grounds	527,418.24
6005	Central Mail Services	386,409.62
6006	Central Supply	215,421.92
6007	Central Duplicating	524,034.78
6008	Fleet & Travel Management	898,233.10
6009	Personnel-Labor & Management	432,594.56
6010	Central Accounting and Payroll Systems	7,057,618.06

STATE ACCOUNTING SYSTEM BALANCES

ATTACHMENT 4

Company Number	Company Name	Cash with State Treasurer at 6/30/07
6011	Rural Development Tele. Network	533,564.25
6012	Aircraft Operations and Maintenance	145,750.36
6013	Building Authority	62,077,145.42
6014	Risk Management	17,808.43
6015	Purchasing and Printing	64,902.40
6016	State Engineer	640,403.89
6018	Health Internal Service	784,171.84
6019	BOA Support Services	198,535.81
6022	Public Safety	202,781.05
6501	Postage Administration	24,152.22
6502	State Radio Teletype	488,307.25
6503	Professional and Licensing	5,658,474.09
6504	Pheasantland Industries	2,604,207.30
6507	Rodent Control	300,031.43
6508	Voc. Rehab. Industries	71,312.63
6509	State Flag Fund	2,149.75
6510	Tourism & Development (REDI)	38,198,048.05
6511	Federal Surplus Property	142,225.91
6515	State Fair Board	329,405.71
6516	State Lottery Operating Fund	6,923,787.21
6517	Railroad Authority Fund	3,750,268.96
6518	Science and Technology Authority	33,186,365.13
6520	Dept. of Revenue & Regulation	2,582,820.52
6521	Health Insurance Risk Pool	6,819,489.27
8000	Main Agency Fund	111,887,422.40
8301	Unemployment Compensation	225,950.76
8302	A.G. Antitrust Litigation	427,601.94
8303	Judiciary-Childs Own	6,795.24
8304	Dept. of Labor - Other	596,956.94
8306	Oahe Conserv. Subdistrict	339,894.41
8313	Social Services Childs Own	160,648.62
8314	DHS Set-Aside Funds	89,898.23
8315	Public Entity Liability Pool	11,058,485.08
8316	PUC Hearing	50,843.18
8324	Unclaimed Property	50,000.00
8328	Community Based Education	356,720.86
8501	Vocational Education Facilities Fund	1,500,000.00
8602	Higher Ed. Scholarships	58,360.93
8901	S.D. Retirement System	5,217,030.56
9000	Warrant Imprest (State Auditor)	29,784,853.60
9001	Hous. & Aux. Facil. Sinking (SDSM&T)	808,557.45
9002	Hous. & Aux. Facil. R & R (SDSM&T)	876,532.90
9004	Proj. 67 Bond & Interest (BHSU)	2,324,216.04
9005	BHSU-Proj. 67 R&R	2,404,095.25
9006	Real Property Acquisition (DSU)	14,853.39
9007	Revenue Bond & Interest (DSU)	274,464.83
9008	Deferred Maintenance (DSU)	12,236.19
9009	Maintenance and Repair (DSU)	622,887.26
9010	SDSU System Ret. Sinking (SDSU)	(1,714,206.75)
9011	Debt Service Reserve Consolidation (SDSU)	12,359.77
9014	Ch 61 Debt Service Reserve (SDSU)	3.47
9015	Ch 61 R&R Reserve (SDSU)	(71,857.34)
9018	Ch 80 R & R Reserve (SDSU)	808,102.88
9019	Ch 80 Operating Reserve (SDSU)	274,332.85
9020	R & R Reserve Consolidated (SDSU)	14,446,334.81
9021	R & R Reserve Food Service (SDSU)	(35,302.11)
9022	Local R & R (USD)	1,996,234.67
9024	Old Main Debt Service (USD)	1,028,988.00
9025	Res Life/CSE M & E (USD)	14,571,530.22
9026	Tuition & Fees Fund (USD)	4,966,177.57
9027	Trojan Center Expansion (DSU)	0.01
9030	Payroll Clearing	167.45
9031	BOR Payroll Clearing Fund	55,835.57

STATE ACCOUNTING SYSTEM BALANCES

ATTACHMENT 4

Company Number	Company Name	Cash with State Treasurer at 6/30/07
9032	Building Projects (NSU)	2,017,761.58
9040	School & Public Lands Fund (SDSM&T)	50.22
9041	Board of Regents - Other	6,457,857.79
9042	Federal Funds (SDSU-CES)	294.24
9048	SDSU-SPL	3,568.64
9049	Ag. Experiment Station (SDSU)	60,248.34
9050	USD-SPL	5,012.07
9053	NSU-SPL	96.08
9054	BHSU-SPL	1,488.79
9056	DSU-SPL	50.23
9060	SDSM&T Investment	345,423.42
9061	NSU-Investment	4,038,995.56
9062	BHSU-Investment	10,116,021.17
9063	DSU-Investment	1,591,151.08
9064	SDSU-Investment	(256,907.91)
9065	USD-Investment	13,492,563.50
9200	SDSU - Federal	(3,213,811.08)
9201	Higher Education-Federal	264,372.98
9220	Cement Plant	1,543,241.94
	Total Cash with State Treasurer	<u>852,808,335.71</u>

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To bank reconciliation in Attachment 3

**SOUTH DAKOTA INVESTMENT COUNCIL
CASH FLOW PORTFOLIO
INCOME PRORATION**

AUDIT REPORT

Fiscal Year Ended June 30, 2007



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-8070
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT ACCOUNTANT'S REPORT

Executive Board
Legislative Research Council

and

Investment Council
State of South Dakota

and

Bureau of Finance and Management
State of South Dakota

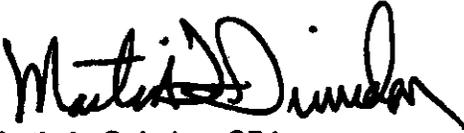
We have examined management's assertion that the accompanying Schedule of Income Proration for the South Dakota Cash Flow Portfolio for the fiscal year ended June 30, 2007 is presented in accordance with the criteria set forth in paragraph three. This schedule is the responsibility of the Bureau of Finance and Management. Our responsibility is to express an opinion on this schedule based on our examination. We have audited the financial statements of the South Dakota Cash Flow Portfolio for the fiscal year ended June 30, 2007, and have issued our report thereon dated September 28, 2007.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accounts and, accordingly, included examining, on a test basis, evidence supporting the Bureau of Finance and Management's Schedule of Income Proration and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion

The method for prorating the investment income earned by the South Dakota Cash Flow Portfolio is defined in South Dakota Codified Law 4-5-30. This law requires the State Investment Officer to use the facilities of the state accounting system for determining the amount of income to credit each fund on a prorata basis in the same ratio that the average daily cash balance of each fund bears to the total average daily cash balance of all funds. The State Investment Officer determines the amount of investment earnings to be distributed and the Bureau of Finance and Management obtains approval from the Appropriations Committee of the Legislature of the listing of funds that will participate in the earnings distribution and determines the distribution to the individual funds.

In our opinion, the Schedule of Income Proration referred to above presents fairly, in all material respects, the investment income credited to the various participating state funds for the fiscal year ended June 30, 2007 in compliance with the method indicated in the preceding paragraph.

This report is intended solely for the information and use of management and members of the South Dakota Legislature and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with a large initial "M" and "G".

Martin L. Guindon, CPA
Auditor General

September 28, 2007

**SOUTH DAKOTA CASH FLOW PORTFOLIO
SCHEDULE OF INCOME PRORATION
For the Fiscal Year Ended June 30, 2007**

Fund	STATE ORGANIZATION Fund Description	Net Proration Amount
DEPARTMENT OF AGRICULTURE		
3002	Wheat Commission	\$ 37,616.44
3050	Agricultural Services Revolving	77,058.10
3052	Rural Rehabilitation	237,676.48
3053	American Dairy Association	20,725.90
3054	Oilseeds/Soybean Fund	113,620.33
3055	Corn Utilization Council	127,224.14
3057	Brand Board	59,669.69
3063	Pesticide Recycling and Disposal	75,079.05
3151	Livestock Disease Emergency	66,490.85
6503	Veterinary Medical Examiners	1,402.58
6503	Veterinary Board Reserve	1,757.88
6507	Rodent Control	12,399.43
6515	State Fair Board	8,674.66
	Total Department of Agriculture	<u>839,395.53</u>
OFFICE OF ATTORNEY GENERAL		
3000	Attorney General-Other	31,688.31
8302	Antitrust Litigation	18,473.50
	Total Office of Attorney General	<u>50,161.81</u>
BUILDING AUTHORITY		
6013	Building Authority	<u>686,868.01</u>
BUREAU OF ADMINISTRATION		
3007	Special Revenue Fund	94,735.25
3029	Extraordinary Litigation Fund	16,452.91
6003	Records Management	7,532.49
6004	Buildings and Grounds	11,259.26
6005	Central Mail Services	12,874.85
6006	Central Supply	11,375.77
6007	Central Duplicating	20,495.17
6008	Fleet and Travel Management	67,463.32
6015	Purchasing & Printing	5,297.91
6016	State Engineer	23,056.44
6019	Support Services	5,972.58
6511	Federal Surplus Property	13,363.93
8315	Public Entity Liability Pool	460,676.88
	Total Bureau of Administration	<u>750,556.76</u>
BUREAU OF FINANCE AND MANAGEMENT		
6010	Central Accounting and Payroll Systems	279,116.82
9220	Cement Plant	79,898.00
	Total Bureau of Finance and Management	<u>359,014.82</u>

**SOUTH DAKOTA CASH FLOW PORTFOLIO
SCHEDULE OF INCOME PRORATION
For the Fiscal Year Ended June 30, 2007**

Fund	STATE ORGANIZATION Fund Description	Net Proration Amount
BUREAU OF INFORMATION AND TELECOMMUNICATIONS		
6001	Information Services	19,198.84
6002	Telecommunications	78,852.90
6011	Rural Development Telecommunications Network	12,172.58
	Total Bureau of Information and Telecommunications	<u>110,224.32</u>
BUREAU OF PERSONNEL		
3035	Insurance Administration	1,272,028.60
6009	Personnel-Labor/Management	21,558.54
6521	Risk Pool	259,171.91
8000	Lincoln Mutual	1,014.79
8301	Unemployment Compensation	6,237.08
	Total Bureau of Personnel	<u>1,560,010.92</u>
DEPARTMENT OF CORRECTIONS		
2021	Corrections - Federal	35,076.78
3011	Corrections-Other	23,267.92
5008	Inmate Funds	1,580.97
6504	Pheasantland Industries	79,517.64
	Total Department Of Corrections	<u>139,443.31</u>
DEPARTMENT OF EDUCATION		
3138	Hagen-Harvey Scholarship Program	35,473.29
8501	Vocational Education Facilities Fund	63,957.84
	Total Department of Education	<u>99,431.13</u>
DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES		
3072	Environment and Natural Resources-Other Funds	465,836.42
3073	Water Facilities Construction	473,335.34
8000	Environmental Impact Studies	9.72
	Total Department of Environment and Natural Resources	<u>939,181.48</u>
DEPARTMENT OF GAME, FISH AND PARKS		
2029	Game Fish and Parks (Federal)	305,629.12
3122	Game and Fish Fund	725,400.83
3123	Predator Animal Control	19,986.24
3124	Land Acquisition Fund	916.43
3125	Custer State Park	56,431.64
3125	Custer State Park Improvement Fund	93,393.47
3125	Homestake Mining Company Natural Resource Recovery Fund	17,580.03
3126	Snowmobile Trails Fund	64,726.62
	Total Department of Game, Fish and Parks	<u>1,284,044.38</u>

**SOUTH DAKOTA CASH FLOW PORTFOLIO
SCHEDULE OF INCOME PRORATION
For the Fiscal Year Ended June 30, 2007**

Fund	STATE ORGANIZATION Fund Description	Net Proration Amount
GOVERNOR'S OFFICE		
3015	Private Activity Bond Fund	<u>49,267.39</u>
DEPARTMENT OF HEALTH		
3049	Tobacco Prevention & Reduction	37,719.48
6018	Health Internal Service Fund	41,701.97
6503	Chiropractic Board	4,341.18
6503	Board of Dentistry	20,549.22
6503	Board of Hearing Aids	1,715.88
6503	Funeral Board	1,114.15
6503	Board of Medical and Osteopathic Examiners	26,640.99
6503	Board of Massage Therapy	374.08
6503	Board of Nursing	16,637.55
6503	Board of Nursing-Colleague In Caring	206.04
6503	Board of Nursing-LPN	505.34
6503	Board of Nursing-RN	2,038.94
6503	Center For Nursing	3,408.08
6503	Nursing Tuition Reimbursement	51.38
6503	Health Professionals Recruitment 2003	454.86
6503	Health Professionals Recruitment 2004	2,852.39
6503	DOH	6,523.64
6503	Nursing Home Administrators	4,919.43
6503	Optometry Board	1,200.93
6503	Board of Pharmacy	24,538.98
6503	Podiatry Examiners	1,996.13
	Total Department of Health	<u>199,490.64</u>
DEPARTMENT OF HUMAN SERVICES		
5016	Resident Investment Funds	5,080.52
6503	Counseling Board	3,281.04
6503	Board of Psychology Examiners	3,369.48
6503	Board of Social Work Examiners	1,589.70
6503	Board for Alcohol and Drug Professionals	7,514.31
6508	Department of Human Services Enterprises	3,711.63
8314	Set-Aside Funds	3,061.03
	Total Department of Human Services	<u>27,607.71</u>
BOARD OF REGENTS		
3085	Higher Education Facilities Fund	261,336.63
8602	Higher Education Scholarships	2,656.95
9026	Tuition and Fees Fund	572,416.34
9041	Other Budgeted-Regents	77,630.25
	Total Board of Regents	<u>914,040.17</u>

**SOUTH DAKOTA CASH FLOW PORTFOLIO
SCHEDULE OF INCOME PRORATION
For the Fiscal Year Ended June 30, 2007**

Fund	STATE ORGANIZATION Fund Description	Net Proration Amount
BLACK HILLS STATE UNIVERSITY		
9004	Project 67 Bond and Interest	74,685.09
9005	Project 67 Renewal and Replacement	146,438.10
9054	BHSU-SPL	156.29
9062	Investment	87,886.10
	Total Black Hills State University	309,165.58
DAKOTA STATE UNIVERSITY		
9006	Real Property Acquisition	621.92
9007	Revenue Bond and Interest	8,962.12
9008	Deferred Maintenance	512.34
9009	Maintenance and Repair	21,631.37
9056	DSU-SPL	30.16
9063	Investment	11,956.23
	Total Dakota State University	43,714.14
NORTHERN STATE UNIVERSITY		
9032	Building Projects	89,554.12
9053	NSU-SPL	162.19
9061	Investment	45,238.27
	Total Northern State University	134,954.58
SCHOOL FOR THE BLIND AND VISUALLY IMPAIRED		
3107	Visually Impaired (Other)	1,892.95
SCHOOL FOR THE DEAF		
3032	Gifts	28,724.62
5020	Investment	206.46
	Total School for The Deaf	28,931.08
SCHOOL OF MINES AND TECHNOLOGY		
9001	Housing and Auxiliary Facilities Sinking	32,314.52
9002	Housing and Auxiliary Facilities Renewal and Replacement	24,837.41
9040	SDSM&T-SPL	64.81
9060	Investment	12,458.49
	Total School of Mines and Technology	69,675.23

**SOUTH DAKOTA CASH FLOW PORTFOLIO
SCHEDULE OF INCOME PRORATION
For the Fiscal Year Ended June 30, 2007**

Fund	STATE ORGANIZATION Fund Description	Net Proration Amount
SOUTH DAKOTA STATE UNIVERSITY		
9010	System Retirement Sinking	3,897.68
9011	Debt Service Reserve Consolidation	4,725.19
9014	College Housing 61 Debt Service Reserve	0.44
9015	College Housing 61 Renewal and Replacement Reserve	7,489.90
9018	College Housing 80 Renewal and Replacement Reserve	41,840.37
9019	College Housing 80 Operating Reserve	11,459.91
9020	Renewal & Replacement Reserve Consolidated	504,882.87
9021	Renewal & Replacement Reserve (Food Service)	6,028.79
9048	SDSU-SPL	404.49
9049	Agriculture Experiment Station-SPL	684.63
9064	Investment	242,597.48
	Total South Dakota State University	<u>824,011.75</u>
UNIVERSITY OF SOUTH DAKOTA		
9022	Local Renewal and Replacement	76,144.26
9023	Consolidated Project Reserve	(3,021.82)
9024	Old Main Debt Service	29,483.79
9025	Resident Life/Coyote Student Center	657,254.24
9050	USD-SPL	135.07
9065	Investment	213,708.94
	Total University of South Dakota	<u>973,704.48</u>
DEPARTMENT OF LABOR		
3030	Employment Security Contingency	3,684.74
8304	Labor-Other	15,981.31
6503	Board of Accountancy	12,845.00
6503	Board of Barber Examiners	474.71
6503	Cosmetology Commission	2,414.65
6503	Plumbing Commission	12,568.08
6503	Board of Technical Professions	7,691.05
6503	Electrical Commission	40,631.96
	Total Department of Labor	<u>96,291.50</u>
DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS		
3021	Veterans' Home L&E	22,878.65
3022	Veterans' Home Capital Fund	10.20
3147	National Guard Museum	5,977.19
3149	Veteran's Funds	4,365.66
5017	Veteran's Home Resident Agency Fund	8,235.63
	Total Department of Military and Veterans' Affairs	<u>41,467.33</u>

**SOUTH DAKOTA CASH FLOW PORTFOLIO
SCHEDULE OF INCOME PRORATION
For the Fiscal Year Ended June 30, 2007**

Fund	STATE ORGANIZATION Fund Description	Net Proration Amount
DEPARTMENT OF PUBLIC SAFETY		
3184	Motorcycle Education/Appraiser	6,467.19
6022	Public Safety Internal Service	7,074.59
	Total Department of Public Safety	<u>13,541.78</u>
PUBLIC UTILITIES COMMISSION		
2016	Public Utilities Commission - Federal	1,525.99
3014	Public Utilities Commission - Other Budgeted	5,321.78
3128	Public Utilities Commission - Other Informational	111,800.01
8316	Public Utilities Commission Hearing	(2,600.69)
	Total Public Utilities Commission	<u>116,047.09</u>
SOUTH DAKOTA RETIREMENT SYSTEM		
3090	Supplemental Retirement Administration	6,332.75
8000	Supplemental Retirement Contributions	667.96
8000	Regents Supplemental Retirement Contributions	1,454.66
8000	Political Subdivision Supplemental Retirement Contributions	151.70
8000	Special Pay Plan - State	163.06
8000	Special Pay Plan - Regents	1,470.80
8000	Special Pay Plan - Political Subdivision	(25.28)
8901	Retirement System	382,572.14
	Total South Dakota Retirement System	<u>392,767.79</u>
DEPARTMENT OF REVENUE AND REGULATION		
3036	Petroleum Release Compensation	242,477.06
3037	Gaming Commission Fund	67,887.92
3038	Tax Relief Fund	5,733.01
3076	Revenue (Other Budgeted)	30,629.07
3177	Motor Vehicle Fund	92,588.18
3183	Insurance and Securities	148,090.12
3185	South Dakota Bred Racing Fund	37,343.77
6516	Lottery Operating Fund	482,887.90
6520	Revenue and Regulation Enterprise	141,991.99
8000	Titles and Registration	432,614.25
8000	Motor Fuel Tax	552,556.77
8000	Fees, Licenses and Permits-Agency Pass-through	429.57
	Total Department of Revenue and Regulation	<u>2,235,229.61</u>
DEPARTMENT OF SCHOOL & PUBLIC LANDS		
3001	Other Special Revenue	<u>7,328.91</u>

**SOUTH DAKOTA CASH FLOW PORTFOLIO
SCHEDULE OF INCOME PRORATION
For the Fiscal Year Ended June 30, 2007**

Fund	STATE ORGANIZATION Fund Description	Net Proration Amount
SECRETARY OF STATE		
2007	Secretary of State Federal	<u>521,281.66</u>
DEPARTMENT OF SOCIAL SERVICES		
3079	Local Donated	42,291.88
8000	Child Support Pass Through	13,877.74
8313	Child's Own	5,445.25
8328	Community Based Education	<u>17,207.49</u>
	Total Department of Social Services	<u>78,822.36</u>
DEPARTMENT OF TOURISM & STATE DEVELOPMENT		
3006	Tourism - Other	33,020.28
3016	Future Fund	681,857.09
3145	Historical Preservation Grant & Loan	15,807.13
3178	Energy Conservation Fund	392,980.77
6510	Tourism & Development Enterprise	1,744,826.19
6518	South Dakota Authorities	<u>1,376,809.56</u>
	Total Department of Tourism & State Development	<u>4,245,301.02</u>
DEPARTMENT OF TRANSPORTATION		
2033	Transportation Federal	406,484.49
3040	Transportation Highway Fund	535,580.86
3041	Aeronautics	265,930.78
3042	Railroad	115,245.90
3043	Public Transit	173,294.99
3044	Railroad Trust	932,429.80
6012	Aircraft Operations & Maintenance	2,734.66
6517	Railroad Authority Fund	<u>201,349.19</u>
	Total Department of Transportation	<u>2,633,050.67</u>
UNIFIED JUDICIAL SYSTEM		
3012	Other Funds	64,197.21
8303	Drug Screening	<u>432.30</u>
	Total Unified Judicial System	<u>64,629.51</u>
STATE TREASURER		
1000	State General Fund	1,271,368.25
3062	Special Revenue Funds	43.94
	Distributed to General Fund in FY07	<u>12,369,539.31</u>
	Total State Treasurer	<u>13,640,951.50</u>
	TOTAL DISTRIBUTION OF NET RECEIPTS	<u>\$ 34,481,518.90</u>