STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY
BASIC FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2008

EAST, VANDER WOUDE, GRANT & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
707 West 11th Street
Sioux Falls, SD 57104

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY

BOARD MEMBERS

David Olson, CPA	Chair
Martin Guindon, CPA	Ex Officio Member, Vice-Chair
John Linn, Jr., CPA	Secretary-Treasurer
Holly Brunick, CPA	Member
John Mitchell, CPA	Member
John Peterson	Lay Member

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Honorable M. Michael Rounds
Governor of South Dakota
and
South Dakota Department Labor
700 Governors Drive
Pierre, South Dakota
and
South Dakota Board of Accountancy
301 East 14th Street, Suite 200
Sioux Falls, South Dakota

We have audited the accompanying financial statements of the South Dakota Board of Accountancy, an enterprise fund of South Dakota state government, as of June 30, 2008 and for the two years then ended, which collectively comprise the Board's basic financial statements listed in the table of contents, and have issued our report thereon dated October 20, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board'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 of the effectiveness of Board of Accountancy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Board's internal control over financial reporting.

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

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A control deficiency exists when the design or operation of the 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 Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiency in internal control described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider item 2008-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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 object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

South Dakota Board of Accountancy's response to the findings identified in our audit is described in the accompanying schedule of finding and response. We did not audit South Dakota Board of Accountancy's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and governing board and management of the South Dakota Board of Accountancy, Sioux Falls, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is matter of public record and its distribution is not limited.

East, Vander Woude, Grant & Co. P.C.

East, Vander Woude, Grant & Co., P.C.
October 20, 2008

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY
BASIC FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2008

STATUS OF PRIOR AUDIT FINDINGS

Finding Number 2006-01:

A reportable condition and a material weakness was reported for a lack of segregation of duties for revenues, expenditures and payroll.

This situation is mitigated by State of South Dakota Department of Labor, Bureau of Personnel and State Auditor's oversight of transactions and due to the nature of the Board of Accountancy's licensing and regulatory purpose.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY
BASIC FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2008

CURRENT AUDIT FINDING AND RECOMMENDATION

Finding No. 2008-1:

Auditor drafting of the financial statements and related footnote disclosures.

Analysis:

We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. During 2006, a new auditing standard from the American Institute of Certified Public Accountants, SAS 112, became effective. This statement requires auditors to communicate this situation to the state as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the Board's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both at the same time in connection with our audit. This is not unusual for us to do this with an organization of your size. However, based on this new auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the Board's management. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Auditee's Corrective Action Plan:

We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk.

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Independent Auditor's Report

The Honorable M. Michael Rounds
Governor of South Dakota
and
South Dakota Department Labor
700 Governors Drive
Pierre, South Dakota
and
South Dakota Board of Accountancy
301 East 14th Street, Suite 200
Sioux Falls, South Dakota

We have audited the accompanying financial statements of the South Dakota Board of Accountancy, an enterprise fund of South Dakota state government, as of and for the year ended June 30, 2008, and for each of the years in the biennial period then ended as listed in the table of contents. These financial statements are the responsibility of the management of the South Dakota Board of Accountancy. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements present only the South Dakota Board of Accountancy, an enterprise fund of the State of South Dakota and do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2008, and the changes in its financial position and its cash flows for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only an enterprise fund and not the State of South Dakota, management has chosen not to present a Management's Discussion and Analysis

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for the enterprise fund that accounting principles generally accepted in the United States of America require to supplement, although not be a part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the of South Dakota Board of Accountancy as of June 30, 2008, and the changes in financial position and cash flows, for each of the biennial years then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2008 on our consideration of the South Dakota Board of Accountancy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

East, Vander Woude, Grant & Co. P.C.

East, Vander Woude, Grant & Co., P.C.
October 20, 2008

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY - ENTERPRISE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets	
Current assets:	
Cash and cash equivalents	$ 325,421
Securities Lending Collateral	28,230
Investment Income Receivable	3,696
Total current assets	357,347
Noncurrent assets:	
Capital assets:	
Software development costs	67,641
Less accumulated depreciation	(67,641)
Total noncurrent assets	-
Total assets	$ 357,347
Liabilities	
Current liabilities:	
Accounts payable	$ 7,115
Amounts held for others	19,045
Accrued wages and benefits payable	7,484
Deferred revenues	15,340
Compensated absences, current portion	4,924
Securities Lending collateral Liability	28,230
Total current liabilities	82,138
Noncurrent liabilities	
Compensated absences, long-term portion	4,409
Total noncurrent liabilities	4,409
Total liabilities	86,547
Net Assets	
Unrestricted	270,800
Total net assets	270,800
Total liabilities and net assets	$ 357,347

See accompanying notes to the financial statements.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY - ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007

	2008	2007
Operating revenues:		
Licenses, permits and fees:		
Business and occupational licensing:		
Initial permits and renewals	$ 190,950	$ 183,400
Examination fees	7,560	9,870
Total licenses, permits and fees	198,510	193,270
Charges for sales and services:		
Quality review	6,400	4,850
Total Charges for sales and services	6,400	4,850
Total operating revenues	204,910	198,120
Operating expenses:		
Personal services	83,734	78,311
Employee benefits	28,061	26,426
Travel	16,195	13,544
Contractual services	49,391	57,789
Supplies and materials	10,960	7,887
Depreciation	-	3,758
Total operating expenses	188,341	187,715
Operating Income	16,569	10,405
Non-operating revenues:		
Interest income	23,423	16,400
Security lending rebate fees	(1,788)	-
Total non-operating revenues	21,635	16,400
Change in net assets	38,204	26,805
Net assets beginning of year, restated	232,596	205,791
Net assets end of year	$ 270,800	$ 232,596

See accompanying notes to the financial statements.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY - ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007

	2008	2007
Cash flows from operating activities:		
Receipts from customers	$ 252,479	$ 253,490
Payments to customers	(1,110)	(2,067)
Payments to suppliers	(124,784)	(131,083)
Payments to employees	(109,161)	(105,017)
Net cash provided by operating activities	17,424	15,323
Cash flows provided from investing activities:		
Interest on investments	23,514	18,571
Security lending rebate fees	(1,788)	(3,138)
	21,726	15,433
Net increase in cash and cash equivalents	39,150	30,756
Cash and cash equivalents beginning of year, restated	286,271	255,515
Cash and cash equivalents end of year	$ 325,421	$ 286,271
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 16,569	$ 10,405
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	-	3,758
Increase (decrease) in accounts payable	1,127	(3,666)
Increase (decrease) amounts held for others	(746)	3,150
Increase (decrease) in deferred revenue	(2,160)	1,955
Increase (decrease) in accrued salaries payable	946	(2,764)
Increase in compensated absences	1,688	2,485
Net cash provided by operating activities	$ 17,424	$ 15,323

See accompanying notes to the financial statements.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The fund included in this report is controlled by or dependent upon the South Dakota Board of Accountancy. The South Dakota Board of Accountancy is an enterprise fund of the State of South Dakota government within the Department of Labor. Consequently, the financial statements do not purport to, and do not, present fairly the financial position, changes in financial position, and cash flows of the State of South Dakota government in accordance with accounting principles generally accepted in the United States of America. The purpose of the Board is to administer and enforce the rules and regulations regarding the practice of public accounting.

The accounting policies of the South Dakota Board of Accountancy conform to generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APS) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements. GASB Statement Nos. 20 34 provide the Board the option of electing to apply FASB pronouncements issued after November 30, 1989. The Board has elected not to apply those pronouncements.

b. Basis of Presentation

The Board is considered an enterprise fund of the State of South Dakota government. A fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses.

An enterprise fund is used to account for business-like activities provided to the general public. These activities are primarily financed by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Board utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used.

Operating income reported in the financial statements include revenues and expenses related to the primary continuing operations of the Board. Principal operating revenues are fees for occupational licensing and examinations. Principal expenses are the costs of providing these services and include administrative expenses and depreciation of capital assets. Other revenues, including interest income, and other expenses are classified as non-operating in the financial statements.

d. Cash and Investments

For the purpose of the Statement of Net Assets, cash includes the local checking account of the Board as well as the Board's interest in the pooled cash fund of the State of South Dakota government. Since the Board pools its cash resources for depositing and investing

purposes, all reported deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

e. Capital Assets

The Board's policy is to capitalize all assets with an acquisition cost of $5,000 or more and a useful life of more than one year. All assets are valued at historical cost or estimated cost if actual cost is not available, except for donated assets which are recorded at their estimated fair value at the date of donation. All of the reported capital assets have been valued at actual cost as of June 30, 2008.

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Revenues, Expenses, and Changes in Fund Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The estimated useful life of software development costs has been estimated to be six years.

f. Compensated Absences

Annual leave is earned by all permanent employees who work in excess of 20 hours per week at the following rates:

0 – 15 years of service – .0576925 hours/hours worked cumulative to 240 hours

15 or more years of service – .076923125 hours/hours worked cumulative to 320 hours

Upon termination, if the employee has worked more than 6 months, all unused vacation hours are paid to the employee at the current rate of pay.

Sick leave is earned by all permanent employees at the rate of .053846154 hours per hour worked. Upon termination, if the employee has seven or more consecutive years of service, 25% of the unused hours are paid at the current rate of pay up to 480 hours.

The liability for these compensated absences is recorded as a liability in the financial statements. The current portion of this liability is estimated based on historical trends.

g. Equity

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

2. DEPOSITS AND INVESTMENTS

Deposits – The Board's deposits are made in qualified public depositories as defined by SDCL 4-6A-1 and with the South Dakota State Treasurer. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 110 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

The bank balance of the local checking account at June 30, 2008 was as follows:

	Bank Balance
Insured (FDIC/NCUA)	$ 8,197
Uninsured, collateral jointly held by state's agent in the name of the state and the pledging financial institution	-0-
Uninsured, uncollateralized	-0-
Total Deposits	$ 8,197

The carrying amount of deposits at June 30, 2008 was $8,197. They were all adequately insured as of June 30, 2008.

The Board's cash includes a participating interest in the State's internal investment pool held by the State Treasurer. The remaining reported cash of $317,224 consists of $297,689 held in the State's internal investment pool, $19,535 held in the State's securities lending transactions and $0 of undeposited receipts. Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the State of South Dakota's comprehensive Annual Financial Report.

3. CAPITAL ASSETS

A summary of changes in capital assets for the two fiscal years ended June 30, 2008, is as follows:

	Balance @ 7/1/06	Additions	Deletions	Balance @ 6/30/08
Computer software	$ 67,641	$ -	$ -	$ 67,641
Accum. depreciation	(63,883)	(3,758)	-	(67,641)
Capital Assets, Net	$ 3,758	$ (3,758)	$ -	$ -

4. LONG- TERM DEBT

As of June 30, 2006, the following liabilities existed for accumulated unpaid leave balances calculated at the employees' June 30, 2008 pay rates including the employer's share of employee benefits:

Vacation pay	$	4,953
Sick pay		4,380
Total	$	9,333

A summary of the changes in long-term debt follows:

		Compenstated Absences
Debt payable, July 1, 2006	$	5,161
Additions to compensated absences		14,549
Deductions from compensated absences		(10,377)
Debt payable, June 30, 2008	$	9,333

See Note 1 for additional information relating to compensated absences.

5. LEASES

Operating Leases:

The South Dakota Board of Accountancy leases office space pursuant to an operating lease which expires September 30, 2009. Rents paid pursuant to this lease totaled $14,931 and $14,931 for the fiscal years ended June 30, 2008 and 2007, respectively.

The South Dakota Board of Accountancy leases a copier and a postage meter/scale pursuant to operating leases which expires December 28, 2009. Rents paid pursuant to this lease totaled $3,029 and $3,029 for the fiscal years ended June 30, 2008 and 2007, respectively.

The following are the minimum payments on the existing operating leases:

Year Ending		Amount
6/30/09	$	17,960
6/30/10		5,247
Totals	$	23,207

6. RETIREMENT PLAN

The Board participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit plan established to provide retirement, disability, and survivor benefits

for employees of the State of South Dakota and its political subdivisions. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6% of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The Board's contributions to the SDRS for the fiscal years ended June 30, 2008, 2007 and 2006 were $4,689, $4,408 and $4,417 respectively.

7. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The South Dakota Board of Accountancy is an enterprise fund of the State of South Dakota government and the Board employees are considered employees of the State of South Dakota. The State of South Dakota is self-insured for workers' compensation benefits, unemployment insurance, health insurance, and life insurance. The State of South Dakota covers risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through a Public Entity Pool Liability (PEPL). The State of South Dakota is insured for boiler insurance, aircraft, and performance bonds through outside insurance companies. The State of South Dakota is uninsured for property losses, with the exception of bonded and revenue-producing buildings that are covered through outside insurance companies.

The Board is charged "premiums" by the State of South Dakota for coverage provided.

The State of South Dakota issues a publicly available financial report that includes additional disclosures related to risk management.

8. EXAMINATION FEE REVENUE/AMOUNTS HELD FOR OTHERS

Subsequent to the November 2003 Uniform Certified Public Accountant Examination, a significant portion of the responsibility for administering the examination has been contractually transferred to the National Association of State Boards of Accountancy (NASBA). Beginning with the April-May 2004 exam window, the Board collects the total exam fee from the participants but reports as revenue only the portion of the fee that belongs to the South Dakota Board of Accountancy as established by administrative rule. The portion of the exam fee that will be remitted to NASBA and others is reported as a current liability account titled "Amounts Held For Others."

9. SECURITIES LENDING TRANSACTIONS

State statutes and the South Dakota Investment Council (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 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 gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

At year end, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires them to indemnify 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 on the amount of the loans exist or can be made. The amount reported as Securities Lending Collateral of $28,230 and Securities Lending Collateral Liability of $28,230 on the statement of net assets represents the South Dakota Board of Accountancy's share of the SDIC total.

10. PRIOR PERIOD ADJUSTMENTS

Certain errors resulting in an understatement of investment income for the securities lending collateral were discovered during the current year. Accordingly, an adjustment of $6,788 was made to the beginning net asset balance for the understatement of 2006 income.