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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable M. Michael Rounds
Governor of South Dakota

and

Members of the Legislature
State of South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the state of South Dakota as of and for the fiscal year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the South Dakota Retirement System, which represents 82% of the assets and 13% of the additions of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report has been furnished to us; and our opinion, insofar as it relates to the amounts included for the South Dakota Retirement System, is based on the report of the other auditor.

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

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate

remaining fund information of the state of South Dakota as of June 30, 2002 and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the financial statements, the State has implemented the following financial reporting requirements of the Government Accounting Standards Board Statements and Interpretation: Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments; Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities; Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

The accompanying management discussion and analysis and budgetary comparison schedule as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of South Dakota's basic financial statements. The introductory section, statistical tables and combining and individual funds financial statements as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual funds financial statements have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with government auditing standards, we have also issued our reports dated March 24, 2003 on our consideration of the state of South Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Martin L. Guindon, CPA
Auditor General

March 24, 2003