NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

B. Reporting Entity

For financial reporting purposes, the state of South Dakota reporting entity includes the primary government and its component units. The primary government consists of state departments, bureaus, boards and commissions. Component units are legally separate governmental organizations for which the state is considered to be financially accountable and other organizations for which the nature of their relationship is such that exclusion would cause the state's financial statements to be misleading or incomplete.

Blended Component Units – Blended component units are legally separate entities that are, in substance, part of the state's primary government. The Building Authority, South Dakota Conservancy District, and the Cement Plant Commission are considered to be blended component units.

Discretely Presented Component Units – Discretely presented component units are legally separate organizations that are either financially accountable to the state, or their exclusion would cause the state's financial statements to be misleading or incomplete. Discretely presented component units are reported in separate columns or rows in the government-wide financial statements to emphasize that they are legally separate from the state.

The following entities are reported as component units:

Conservation Reserve Enhancement Program (CREP)
South Dakota Finance Authority
South Dakota Housing Authority
Higher Education

Related Organizations – The Health and Educational Facilities Authority is excluded from the reporting entity because the state's accountability does not extend beyond appointing a voting majority of the organization's board members.

Separately issued financial statements of the South Dakota Building Authority, Conservation Reserve Enhancement Program, South Dakota Finance Authority, and South Dakota Housing Authority are available from the Department of Legislative Audit.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements include the Statement of Net Assets and Statement of Activities. The Statement of Net Assets and Statement of Activities report all nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities are generally supported by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The focus of the government-wide financial statements is the primary government. A separate column is presented for all discretely presented component units.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function; and, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included as program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

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

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the state receives value without directly giving equal value in exchange, include taxes, grants, and donations. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred. Revenue from grants and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay liabilities of the current period. Sales tax, motor fuel taxes, bank card taxes, grant revenue, investment income, and charges for goods and services are all considered to be susceptible to accrual, if collected within 60 days of the end of the current fiscal year. All other revenue is considered to be measurable and available only when cash is received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, capital leases, and claims and judgments are recorded only when payment is due and payable.

Proprietary, Fiduciary, and Similar Component Units Financial Statements

The financial statements of the proprietary funds, fiduciary funds, and similar component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Proprietary funds include both enterprise and internal service fund types.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as subsidies and investment earnings are reported as nonoperating.

The state's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Financial Statement Presentation

The state reports the following major governmental funds:

The General Fund is the state's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund.

The Dakota Cement Trust Fund was created with the proceeds from the sale of the State Cement Plant. Income from the fund is used to fund general state government and public school districts.

The Transportation Fund accounts for dedicated state tax revenue and federal awards for the construction, maintenance, and supervision of state highways and bridges.

The Social Services Fund accounts for federal funds received by the Department of Social Services to fund social welfare programs.

The state reports the following major proprietary funds:

The Clean Water State Revolving Fund is used to provide loans to local governments for wastewater, storm sewer, and nonpoint source pollution control projects.

The Revolving Economic Development Loan Fund is used to provide low interest loans for economic development projects.

The State Lottery Operating Fund accounts for the operations of the state lottery.

In addition, the state reports the following fund types:

Governmental Funds:
Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Special revenue funds account for federal grant programs, taxes with distributions defined by the state constitution or state laws and other resources restricted as to purpose.

The **Debt Service Fund** administered by the South Dakota Building Authority accounts for resources accumulated for the retirement of long-term debt principal and interest.

The **Capital Projects Fund** administered by the South Dakota Building Authority accounts for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary, fiduciary, or component units funds.

The **Permanent Fund** administered by the Department of School and Public Lands accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Proprietary Funds:
Enterprise Funds report activities for which a fee is charged to external users for goods or services. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.

Internal Service Funds report activities that provide goods or services to other funds, departments, or agencies of the primary government and its component units or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, internal service funds activity is included in governmental activities.

Fiduciary Funds:
Pension Funds account for resources that are required to be held in trust for the members and beneficiaries of the state's defined benefit pension plan and the State Cement Plant defined benefit plan.

Private Purpose Trust Funds account for resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments.

Agency Funds report assets and liabilities of resources held for temporary investment and remittance of the resources to individuals, private organizations, or other governments.

E. Budgetary Accounting

Agencies and departments submit budget requests to the Bureau of Finance and Management. The commissioner approves the bureau's budget recommendation that is presented to the Governor for his consideration. The Governor's decisions are presented to the legislature in the Governor's budget book.

The financial plan for each fiscal year is adopted by the legislature by the passage of a general appropriations act, special appropriations acts, and deferred maintenance appropriations. The formal budget approved by the legislature does not include budgeting for revenues and other financing sources/uses.

The general appropriations act includes only appropriations for ordinary current and capital expenses of the executive, legislative, and judicial branches of the state. Law classifies appropriations into general, federal, and other fund budget classifications. The budget is controlled at the program level for personal services and operating expenses. Detailed appropriation information at this level is presented in the Available Funds Report that is available at the Bureau of Finance and Management.

The state's annual budget is prepared on the cash basis of accounting. Encumbrance accounting is utilized to reserve a portion of the budget to future periods for payment of purchase orders, contracts and other commitments. Encumbrances outstanding at year-end are reported as reservations of fund balances, since they do not constitute expenditures or liabilities. Encumbrances at June 30, 2002 totaled $41,880,000.

F. Assets, Liabilities, and Net Assets/Fund Balance

Cash and Cash Equivalents and Investments

Cash includes cash on hand, cash in local banks, and cash in the State Treasury. Cash equivalents are reported at fair value. Cash equivalents include short-term investments with original maturities of three months or less. Cash balances of most state funds are pooled and invested by the State Investment Officer. Investment income is allocated to participating funds at year-end.

Investments, as reported on the balance sheet, represent all long-term investments not considered cash equivalents. Investments include corporate stocks, bonds, convertible debt, U.S. government bonds, repurchase agreements, annuity contracts, investment contracts, international funds, and real estate. Investments are reported at fair value.

Receivables

Receivables in the governmental and business-type activities consist mainly of amounts due from component units, other governments, loans and customers.

Inventories

Inventories reported in the governmental fund types are reported at cost using the moving average cost method. Proprietary fund type inventories are valued at the lower of cost or market, using the moving average cost method. Inventories reported in the higher education component unit discrete presentation are reported at cost using the FIFO method, except livestock inventories, which are reported at June 30, 2002 market price. Inventories are expensed using the consumption method.

Food stamps and federal commodities on hand are reported as inventories, offset by deferred revenue. Food stamp inventory is reported at face value and commodities are reported at fair value established by the federal government at the date received. At June 30, 2002, the food stamp inventory was reported in the amount of $731,524 and the commodities inventory was reported in the amount of $409,000.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are capitalized at cost, or estimated historical cost, if original cost records are not available. Donated property, plant, and equipment are valued at fair market value at the date of donation. The State does not Property, plant, and equipment acquired through capital leases are capitalized at fair market value at the inception of the lease.

All land is capitalized regardless of cost. Land improvements are capitalized when the cost of the improvement is $50,000 or more. Buildings and building improvements are capitalized when the cost is $100,000 or more. Equipment is capitalized when the cost of individual items is $5,000 or more. Infrastructure assets are capitalized when the cost of the assets is $1,000,000 or more for governmental funds and fiduciary funds, and $50,000 or more for proprietary funds and component units. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

Depreciable capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Land Improvements	20-30
Buildings and Improvements	15-50
Infrastructure	20-99
Equipment	3-17

The state owns works of art and historical treasures that have not been capitalized and depreciated because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. Works of art and historical treasures include items such as statues, monuments, historical documents, paintings, artifacts, etc. Higher Education, a business type activity component unit, adopted the state's policy on capitalizing historical treasurers and collections. The exceptions to this policy are the Memorial Art Center Collection at the South Dakota State University and the Oscar Howe paintings collection at the University of South Dakota, which were capitalized as of June 30, 1999. The collections are valued at the historical cost or estimated fair market value at the time of donation. The reported capitalized value of these collections was $7,445,550 and $379,085, respectively, as of June 30, 2002. All proceeds from the sale of items within these collections will be used to acquire other items for the collections.

Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary funds financial statements and "Fund Balance" on the governmental fund financial statements. Net assets are reported in three categories:

Invested in capital assets, net of related debt is a category reported in the government-wide statement of Net Assets and consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of assets that have externally imposed constraints placed on them by either creditors, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions.

Unrestricted net assets consist of assets that do not meet the definition of the two preceding categories.

When both restricted funds and unrestricted funds are eligible for use in payment of expenditures, the restricted funds will be utilized first.

Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations include reserve for encumbrances and reserve for debt service.

Designations of fund balance represent tentative management plans that are subject to change. The 1991 South Dakota Legislature established a budget reserve funded from any unobligated cash in the general fund. The maximum balance of the budget reserve is five percent of the prior year's general fund appropriation. The balance in the budget reserve at June 30, 2002 was $39,325,000 and is reported under the unreserved designated account in the general fund.

G. Compensated Absences

All full-time and permanent part-time employees earn annual leave and sick leave. Employees earn fifteen days annual leave per year that can be accumulated to thirty days, except for employees with more than fifteen years of employment, who earn twenty days annual leave per year that can be accumulated to forty days. Upon termination, employees receive payment for their accumulated annual leave. Employees earn fourteen days sick leave per year. Unless dismissed for cause, employees who terminate after seven years of continuous employment, receive payment for one-fourth of their accumulated sick leave balance, not to exceed four hundred eighty hours.

A liability has been recorded in the government-wide and funds financial statements for compensated absences in accordance with GASB statements.

H. Lottery Security Deposits

State law requires video lottery operators to furnish security to the lottery. Security may be in the form of a surety bond, deposit in cash, an irrevocable letter of credit, or a certificate of deposit issued by a South Dakota financial institution with the lottery endorsed on it as a payee. As of June 30, 2002, the amount of certificate of deposits being held by the lottery was $657,003 and is included in cash and cash equivalents on the balance sheet. The amount of $5,114,900 was in the form of surety bonds, or irrevocable letters of credit and is not reported on the balance sheet.

I. Interfund Activity and Balances

Interfund activity, as a general rule, has been eliminated from the government-wide financial statements. An exception to this rule is activities between funds reported as governmental activities and funds reported as business-type activities (examples include the transfer of profits from the lottery fund to the general fund). Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return, or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources. An example is securities taxes collected by the Department of Commerce and Regulation, but expended by the general fund.

Interfund balances-interfund receivables and payables have been eliminated from the Statement of Net Assets.

2. ACCOUNTING CHANGES, RESTATEMENTS, AND RECLASSIFICATIONS

Implementation of Accounting Pronouncements

For the reporting period ended June 30, 2002, the state implemented the following accounting standards issued by the GASB:

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.

Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. The new reporting standards represent a significant change in the financial reporting model used by state governments, including statement formats and changes in fund types and the elimination of account groups. Governments are required to present government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. The statement also requires reporting of major funds. The changes in financial reporting standards required fund reclassifications and adjustments to the fund equities reported in the prior year's financial statements.

Statement No. 35 establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The state universities are reported as discretely presented component units of the state.

The provisions of these new standards resulted in significant changes to the state's financial statements and related notes to the financial statements for both the primary government and component units. The changes resulted primarily from implementation of these GASB statements; however, the following additional significant restatements occurred.

Reporting Entity Changes

In fiscal year 2002, the State Fair was reclassified from a discretely presented component unit enterprise fund to a primary government enterprise fund, since the state now exercises administrative control over the entity.

Restatements

The beginning fund balance for the transportation fund, reported as a major governmental fund and the aeronautics fund, reported as a nonmajor governmental fund, were decreased by $287,000 and $333,000, respectively, for the restatement of liabilities.

The beginning fund balance for the Building Authority capital projects fund was increased by $54,000 for the restatement of accrued interest payable in accordance with GASB Interpretation 6, recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

The beginning fund balance for nonmajor enterprise funds was increased by $55,000 for the restatement of cash and was decreased by $2,222,000 for the change in the state's capitalization policy for land improvements, buildings, and building improvements from $5,000 to $50,000 or greater for land improvements and $100,000 or greater for buildings and building improvements.

The deferred compensation fund, previously reported as an expendable trust fund was removed from the state's financial statements. The state reevaluated the reporting requirements for this fund and concluded that reporting was not required, since the state has limited administrative involvement and does not perform the investing function for the plan. This is shown as a $69,988,000 decrease to beginning equity in expendable trust funds in the table below.

Other Changes

Statement No. 34 limited the use of agency funds to the receipt, temporary investment, and remittance of fiduciary resources held on behalf of individuals, private organizations, or other governments. Previously, the state reported amounts that were being held pending distribution to other state funds in its agency funds. Beginning assets and liabilities were reduced in agency funds by $181,655,000. This did not affect equity in other funds, but did result in the restatement of beginning cash balances in the proprietary fund Statement of Cash Flows.

The Water Pollution Control Revolving Fund was renamed the Clean Water State Revolving Fund.

The following tables summarize (in thousands) changes to fund equities as previously reported on the Combined Balance Sheet to net assets for the primary government.

	Equity as Previously Reported June 30, 2001	Fund Reclassification	Change In Reporting Entity	Prior Period Adjustments	Net Assets as Restated July 1, 2001
Governmental Activities:					
Major Funds:					
General Fund	$ 154,403	$	$	$	$ 154,403
Transportation Fund	52,103			(287)	51,816
Social Services Federal Fund	257				257
Dakota Cement Trust Fund		227,228			227,228
Nonmajor Governmental Funds:					
Special Revenue Funds	357,212	48,492		(333)	405,371
Debt Service Funds	89,446			54	89,500
Capital Projects Funds	681				681
Permanent Funds	0	23,633			23,633
Total Nonmajor Funds	447,339	72,125	0	(279)	519,185
Total Governmental Funds	$ 654,102	$ 299,353	$ 0	$ (566)	952,889
Adoption of GASB Statement 34					
Capital Assets, Net of Depreciation					2,463,269
Long-term Liabilities					(219,961)
Other Assets					1,609
Other Liabilities					(3,470)
Revenue Recognition					5,152
Internal Service Funds					24,411
Total Adoption of GASB Statement 34					2,271,010
					$ 3,223,899
Business-type Activities:					
Major Funds:					
Lottery Fund	$ 4,411	$	$	$	$ 4,411
Revolving Economic Development and Initiative Fund	71,383				71,383
Clean Water State Revolving Fund	96,048				96,048
Nonmajor Funds:					
Enterprise	25,468	63,192	1,759	(2,167)	88,252
Internal Service	24,411	(24,411)			0
Total Business-Type Activities	$ 221,721	$ 38,781	$ 1,759	$ (2,167)	$ 260,094
Fiduciary Funds:					
Pension Trust Funds	$ 4,974,084	$	$	$	$ 4,974,084
Nonexpendable Trust Funds	211,867	(211,867)			0
Expendable Trust Funds	350,742	(280,754)		(69,988)	0
Private Purpose Trust Funds		128,193			128,193
Total Fiduciary Funds	$ 5,536,693	$ (364,428)	$ 0	$ (69,988)	$ 5,102,277

The following tables summarize (in thousands) changes to fund equities as previously reported on the Combined Balance Sheet to net assets for component units.

	Equity as Previously Reported June 30, 2001	Fund Reclassification	Change In Reporting Entity	Prior Period Adjustments	Net Assets as Restated July 1, 2001
Component Unit - Enterprise:					
Housing Authority	$ 255,553	$ 20,776	$	$	$ 276,329
Finance Authority	9,999				9,999
CREP Program	890				890
State Fair	1,759		(1,759)		0
Component Unit - Special Revenue:					
Housing Authority	20,776	(20,776)			0
Higher Education	459,954			(251,046)	208,908
Total Component Units	$ 748,931	$ 0	$ (1,759)	$ (251,046)	$ 496,126

3. CASH, DEPOSITS, AND INVESTMENTS

South Dakota Codified Laws (SDCL) and administrative rules authorize the types of deposits and investments. Most state public funds are invested in the Cash Flow Portfolio using the pooled deposit and investment concept. This concept allows for the deposit and investment of aggregate idle fund monies, while preserving the integrity of fund cash balances of each state fund.

Negative cash balances in funds participating in the Cash Flow Portfolio are reclassified at year-end as interfund payables. The cash and cash equivalents balance in the general fund was reduced by $12,713,201 for deficit cash balances that existed in various state funds at June 30, 2002, and is reported as an interfund receivable.

Certain funds and component units have statutory authority to make deposits and investments in specific types of securities, which may be more or less restrictive than the general authority covering the Cash Flow Portfolio. Additionally, bond provisions may require restrictions on types of investments. The state was in compliance with legal requirements governing deposit and investing activities.

Deposits

A. Primary Government

As of June 30, 2002, the carrying amount of deposits was $51,663,423 and the bank balance was $51,663,423. Of the bank balance, $22,658,515 was fully insured or collateralized with securities held by the primary government or its agent in the primary government's name (Category 1), $28,945,338 was collateralized with securities held by the pledging financial institution's trust department, or its agent in the primary government's name (Category 2), and $59,570, although meeting legal collateralization requirements, deposits were held by the counterparty, or by its trust department or agent, but not in the state's name (Category 3).

B. Component Units

As of June 30, 2002, the carrying amount of deposits was $6,148,668, and the bank balance was $6,593,537. Of the bank balance, $4,700,237 was fully insured or collateralized with securities held by the respective component units, or their agents in the component unit's name (Category 1) and $1,893,300, although meeting legal collateralization requirements, deposits were held by the counterparty, or by its trust department or agent, but not in the state's name (Category 3).

Investments

Authorized investments generally include obligations consisting of securities guaranteed either directly or indirectly by the United States of America, or the state of South Dakota; notes or bonds issued and guaranteed by political subdivisions of the state; notes, bonds, or debentures of solvent corporations, provided they are rated in the four highest classifications established by at least two rating services.

The assets of the Cement Plant Trust Fund, Education Enhancement Trust Fund, and the Healthcare Trust Fund are authorized to be invested in stocks, bonds, mutual funds, and other financial instruments.

State (permanent) school and endowment funds (also known as School and Public Lands funds) are authorized to be invested, additionally, in corporate equity securities, loans made by the Veteran's Administration, Farmer's Home Administration, Federal Housing Administration, and Small Business Administration, as well as loans made under the Federal Higher Education Act of 1965, as amended.

Assets of public employee pension trust funds are authorized to be invested, additionally, in corporate equity securities.

All types of investments must follow the "prudent man concept", considering the probable safety of capital, as well as the probable income.

Housing Development Authority funds can also be invested in obligations issued by the Government National Mortgage Association, Federal National Mortgage Association, Federal Land Bank, Federal Home Loan Bank, Bank for Cooperatives, and Federal Farm Credit Banks.

The state's investments are categorized to give an indication of the level of risk assumed by the entity. Category A includes those investments that are insured or registered, or held by the state or its agent in the state's name. Category B includes those investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name. Category C includes those investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the state's name.

At June 30, 2002, the state's investments consisted of the following (expressed in thousands):

	Category A	Category B	Category C	Fair Value
Primary Government:				
U.S. Government-Backed Securities	$ 1,191,128	$ 280,961	$	$ 1,472,089
U.S Government-Backed Loans	12,302			12,302
Corporate Notes and Bonds	751,212	155,557		906,769
Corporate Equity Securities	1,562,832	100,597		1,663,429
International Funds	727,721			727,721
Total	4,245,195	537,115	0	4,782,310
Unclassified:				
Mutual Funds				504,106
Guaranteed Investment Contracts				57,235
Annuity Contract				82,585
Real Estate				293,392
International Funds				95,789
Private Equity				170,343
Unemployment Compensation Funds Funds Pooled with U.S. Treasury				56,438
Investments Held by Brokers Under Securities Lending Program:				
Securities Lending Collateral				460,928
Component Units in Primary Government's Investment Pool				(76,352)
Total Primary Government	4,245,195	537,115	0	
Component Units:				
Repurchase Agreements	158,337			158,337
U.S. Government-Backed Securities	268,670		8,566	277,236
U.S. Government-Backed Loans	35,650		860	36,510
Corporate Notes and Bonds			438	438
State of South Dakota Bonds	10,904			10,904
Total	473,561	0	9,864	483,425

Unclassified:				
Mutual Investment Funds				187,133
Investments Held by Brokers Under				
Securities Lending Program:				
Securities Lending Collateral				13,681
Investments in Primary Government's				
Investment Pool				62,671
Total Component Units	473,561	0	9,864	746,910
Total Reporting Entity	$ 4,718,756	$ 537,115	$ 9,864	$ 7,173,686

Reconciliation of Deposit and Investments
With Financial Statements
June 30, 2002
(expressed in thousands)
Government-Wide Statement of Net Assets

	Governmental Activities	Business-Type Activities	Component Units	Fiduciary Funds Statement of Net Assets	Total
Cash and Cash Equivalents	$ 632,205	$ 138,590	$ 309,593	$ 48,550	$ 1,128,938
Investments	341,224	57,235	429,786	4,777,804	5,606,049
Securities Lending Collateral	159,935	14,791	13,681	272,521	460,928
Total	$ 1,133,364	$ 210,616	$ 753,060	$ 5,098,875	$ 7,195,915

Short-term investments consist primarily of commercial paper rated as required by statute. Higher Education is a component unit with investments in the primary government's investment pool.

The pension fund investment portfolio includes futures contracts due September 19, 2002 that will increase the market exposure for domestic securities by $428,054,602 and decrease domestic fixed income investments by $9,625,910 and short-term investments by $418,428,692.

Cash and Investment Reconciliation

Cash and investments per above schedules (expressed in thousands):

Deposits - Bank Balance	$ 58,257
Investments	7,173,686
TOTAL	7,231,943
Outstanding Warrants	(37,204)
Purchased Interest	304
Other Adjustments	872
TOTAL CASH AND INVESTMENTS	$ 7,195,915

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 securities custodian is an agent in lending the domestic and international securities for 100% cash collateral, 102% U.S. government-backed securities and short-term money markets, 105% asset-backed securities and 110% corporate securities of the loaned securities' fair value. 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 dealers, result 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 collateral received from 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). Either the SDIC, or the borrower, can terminate the securities loans on demand, although the average term of the loans is one business day. 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.

Derivative Financial Instruments in Pension Trust Funds

***South Dakota Retirement System**:* Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate or index. The South Dakota Retirement System (SDRS) is exposed to a variety of derivative products through the investment management of the SDIC and their outside managers.

The SDIC purchases and sells financial and interest rate futures as a means of adjusting the SDRS portfolio mix and as a lower transaction cost substitute for transactions that would otherwise occur in the underlying portfolios. Futures contracts outstanding at June 30, 2002 were as follows (expressed in thousands):

	Open Positions	Contracts	Fair Value
S&P 500 Index due September 19, 2002	Long	1,712	$423,639
NASDAQ 100 Index due September 19, 2002	Long	42	$ 4,416
U.S. Treasury Note due September 19, 2002	Short	-70	$ (9,626)

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, SDRS pledges to the broker cash or U.S. government securities equal to the minimum "initial margin" requirement of the futures exchange. Additionally, SDRS receives or pays a 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 that the contract rises in value. Although short positions have theoretically no maximum risk, the SDRS 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% U.S. Treasury security adjusted for duration.

The hedging guidelines of the SDRS arbitrage portfolios managed by the SDIC provide that stock and other noncash considerations to be received may be hedged through the use of options, short sales, or when-and-if issued sales. The two arbitrage portfolios had short sales valued at $66,718,632 as of June 30, 2002. A short sale involves the sale of securities not yet owned, but borrowed through a broker to be later repurchased to cover the loan. The arbitrage portfolios use the short sales to hedge the disparities between the existing price of a security and the present value of considerations to be received as a result of restructuring or merger activity.

The SDIC also enters into foreign exchange forward contracts to hedge foreign currency transactions. These contracts are purchased to reduce the impact of foreign currency fluctuations. The SDIC does not engage in foreign currency speculation. The contracts do not subject SDRS to risk due to exchange rate movements as gains and losses on the contracts offset gains and losses on the transactions being hedged. SDRS' 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. Management believes the risk of incurring such losses is remote as the contracts are entered into with major financial institutions.

In addition to the derivatives listed above, the SDRS fixed income portfolio also held mortgage-backed securities in the form of GNMAs, FHLMCs, and FNMAs. The fair value of these securities as of June 30, 2002 was $475,618,673. The SDIC is using this investment to enhance fixed returns.

Cement Plant Retirement Fund: The South Dakota Cement Plant Retirement Fund is a unit pension trust fund. Investment portfolio management is the statutory responsibility of the SDIC. The SDIC purchases and sells financial and interest rate futures as a means of adjusting the plan's portfolio mix. Futures contracts outstanding at June 30, 2002 were as follows (expressed in thousands):

	Open Positions	Contracts	Fair Value
S&P 500 Index due September 19, 2002	Long	8	$ 1,980
Midcap 400, due September 19, 2002	Long	1	$ 244

In addition to the derivatives listed above, the Cement Plant Retirement Fund also held mortgage-backed securities in the form of GNMAs, GHLMCs, and FNMAs. The fair value of these securities as of June 30, 2002 was $2,559,011. The SDIC is using this investment to enhance fixed returns.

4. DISAGGREGATION OF RECEIVABLES AND PAYABLES

A. Receivables - Net

The line "Receivables, Net" reported on the government-wide Statement of Net Assets consisted of the following (expressed in thousands):

	Governmental Activities						
	General Fund	Transportation Fund	Social Services Federal Fund	Dakota Cement Trust Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
Taxes Receivable	$ 77,297	$ 14,878	$	$	$ 3,056	$	$ 95,231
Allowance	(3,648)	(8)			(52)		(3,708)
Accounts Receivable	1,900	134	1,051	2,630	5,154	527	11,396
Allowance	(254)				(143)		(397)
Due From Other Governments	709	22,842	33,525		47,100	56	104,232
Allowance	(128)						(128)
Interest Receivable	5,941	266	9	1,923	2,349	398	10,886
Current Loans and Notes		49			3,439		3,488
Noncurrent Loans and Notes		263			18,789		19,052
Allowance					(270)		(270)
Due From Fiduciary Funds	37				31	32	100
Receivables, Net	$ 81,854	$ 38,424	$ 34,585	$ 4,553	$ 79,453	$ 1,013	$239,882

	Business-type Activities				
	Lottery Fund	REDI Fund	Clean Water State Revolving Fund	Nonmajor Enterprise Funds	Total
Accounts Receivable	$ 4,545	$ 8	$	$ 1,007	$ 5,560
Allowance	(20)				(20)
Due From Other Governments			156	623	779
Interest Receivable	93	509	1,715	650	2,967
Current Loans Receivable		9,808	5,904	2,509	18,221
Noncurrent Loans Receivable		17,497	60,385	25,638	103,520
Allowance		(1,161)		(178)	(1,339)
Receivables, Net	$ 4,618	$ 26,661	$ 68,160	$ 30,249	$ 129,688

B. Accounts Payable and Other Current Liabilities

The line “Accounts Payable and Other Current Liabilities” reported on the government-wide Statement of Net Assets consisted of the following (expressed in thousands):

	Governmental Activities					
	General Fund	Transportation Fund	Social Services Federal	Nonmajor Governmental Funds	Internal Service Funds	Total
Payroll and Withholdings	$ 7,713	$ 3,512	$ 1,220	$ 6,029	$ 1,575	$ 20,049
Accounts Payable	7,780	31,063	1,782	17,288	2,566	60,479
Medicaid Claims	13,263		26,501	4,138		43,902
Medicaid Disallowance	2,745					2,745
Due to Other Governments	3,087	90	28	13,808		17,013
Shared Revenue Distribution	17,903			12,953		30,856
Unclaimed Property	2,353					2,353
Due to Fiduciary Funds	22			29		51
Total	$ 54,866	$ 34,665	$ 29,531	$ 54,245	$ 4,141	$ 177,448

	Business-type Activities				
	Lottery Fund	REDI Fund	Clean Water State Revolving Fund	Nonmajor Enterprise Funds	Total
Payroll and Withholdings	$ 72	$ 18	$ 9	$ 285	$ 384
Accounts Payable	935	7	60	2,751	3,753
Due to Fiduciary Funds				18	18
Other Liabilities	690				690
Total	$ 1,697	$ 25	$ 69	$ 3,054	$ 4,845

5. INTERFUND TRANSACTIONS

The composition of interfund balances at June 30, 2002 is as follows (expressed in thousands):

A. Interfund Receivables and Payables

	Due From									
Due To	General Fund	Transportation Fund	Social Services Federal	Nonmajor Governmental Funds	Lottery Fund	REDI Fund	Nonmajor Enterprise Funds	Internal Service	Fiduciary	Total
General Fund	$	$	$ 3,791	$ 7,727	$ 44	$	$ 828	$ 118	$ 37	$12,545
Transportation Fund	22	33	16	286				267		624
Social Services Fund				35						35
Non-major Governmental Funds	1,007	15,133	234	2,750	4,113		31	131	31	23,430
Non-major Enterprise Funds	68	4	10	140			15	87		324
Internal Service Funds	1,941	965	532	2,681	64	3	119	979	32	7,316
Fiduciary Funds	22			29			18			69
Total	$ 3,060	$ 16,135	$ 4,583	$ 13,648	$ 4,221	$ 3	$ 1,011	$ 1,582	$ 100	$44,343

Interfund receivables and payables are recorded for: 1) interfund goods or services provided or other reimbursable transactions occurring between funds; 2) year-end entries eliminating deficit cash balances in funds as described further in Note 3; and, 3) other payables existing between funds.

Advances between funds also existed at June 30, 2002, which are not shown in the above table. These are amounts owed between funds that are not due within one year and include $861,648 due from the aeronautics fund, reported as a nonmajor governmental fund to the general fund for the reimbursement of state aircraft maintenance costs.

B. Interfund Transfers

	Transferred To							
Transferred From	General Fund	Transportation Fund	Social Services Federal	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service	Fiduciary	Total
General Fund	$	$ 13	$ 1,362	$ 14,127	$ 812	$ 599	$	$ 16,913
Transportation Fund	1,438			114				1,552
Dakota Cement Trust Fund	12,000							12,000
Nonmajor Gov ernmental Funds	141,464	282	35	97,534	61		481	239,857
Lottery Fund	4,274			104,997				109,271
Water Pollution Control Revolving Fund				25				25
Nonmajor Enterprise Funds				316				316
Internal Service Funds				239		2		241
Fiduciary Funds				6				6
Total Transfers Out	159,176	295	1,397	217,358	873	601	481	380,181
Transfers of Capital Assets From General Capital Assets to Internal Service Funds								19
Transfers of Capital Assets From Nonmajor Enterprise Funds to General Capital Assets								(186)
Total	$159,176	$ 295	$ 1,397	$ 217,358	$ 873	$ 601	$ 481	$ 380,014

Transfers are used to: 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; 2) move receipts restricted for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and, 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In the fund financial statements, total transfers out are $166,816 higher than total transfers in because of the treatment of assets transferred between proprietary funds and governmental funds. No amounts were reported in the governmental fund financial statements because the amount did not involve the transfer of financial resources.

In the fiscal year ended June 30, 2002, nonmajor governmental funds reported transfers out from the Youth-at-Risk fund and the peoples trust and interest fund of $5.7 million and $50.6 million, respectively. The money was transferred into the education enhancement trust fund. A transfer out of $30.8 million was reported from the intergovernmental transfer fund to the health care trust fund. The education enhancement trust fund and health care trust fund were created by state law, beginning in fiscal year 2002.

In addition, $131,462,000 of general fund appropriations was used to support state-run universities, which are reported under Higher Education, a component unit. The amounts are reported as expenditures in both general fund statements and the governmental activities column of the Statement of Activities. They are reported as revenues in the component units column of the Statement of Activities.

6. CAPITAL ASSETS

A. Primary Government

Capital Assets consisted of the following for fiscal year 2002 (expressed in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets not Being Depreciated:				
Land	$ 49,544	$ 4,404	$ 1,229	$ 52,719
Land Improvements	343	1,344		1,687
Land Improvements - Roads	553,107	1,534		554,641
Construction in Progress	187,303	106,381	117,334	176,350
Total Capital Assets Not Being Depreciated	790,297	113,663	118,563	785,397
Capital Assets Being Depreciated:				
Land Improvements	4,791	1,878		6,669
Buildings	218,845	19,764	634	237,975
Equipment	105,368	13,338	3,924	114,782
Vehicles	81,759	12,920	7,330	87,349
Infrastructure	2,453,924	108,075	39,432	2,522,567
Total Capital Assets Being Depreciated	2,864,687	155,975	51,320	2,969,342
Less: Accumulated Depreciation for:				
Land Improvements	1,417	302		1,719
Buildings	78,155	6,325	275	84,205
Equipment	61,895	8,126	2,832	67,189
Vehicles	40,004	9,187	3,463	45,728
Infrastructure	990,848	45,621	12,533	1,023,936
Total Accumulated Depreciation	1,172,319	69,561	19,103	1,222,777
Total Capital Assets Being Depreciated, Net	1,692,368	86,414	32,217	1,746,565
Total Governmental Activities	$ 2,482,665	$ 200,077	$ 150,780	$ 2,531,962
Business-Type Activities				
Capital Assets not Being Depreciated:				
Land	325	29		354
Construction in Progress	469	745		1,214
Total Capital Assets Not Being Depreciated	794	774	0	1,568

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Being Depreciated:				
Land Improvements	687			687
Buildings	2,918			2,918
Equipment	2,117	14		2,131
Total Capital Assets Being Depreciated	5,722	14	0	5,736
Less: Accumulated Depreciation for:				
Land Improvements	301	24		325
Buildings	2,161	70		2,231
Equipment	1,791	51		1,842
Total Accumulated Depreciation	4,253	145	0	4,398
Total Capital Assets Being Depreciated, Net	1,469	(131)	0	1,338
Total Business-Type Activities	$ 2,263	$ 643	$ 0	$ 2,906

Depreciation was charged to the function of government as follows:

	Amount
Governmental Activities	
Unallocated	$ 70
General Government	8,775
Health and Human Services	1,714
Law, Justice, and Public Protection	4,182
Agriculture and Natural Resources	1,786
Commerce and Regulation	38
Transportation	51,916
Education	1,066
Economic Resources	15
Total Governmental Activities	$ 69,562
Business-Type Activities	
Enterprise Funds	$ 148

B. Component Units

Capital Assets for Component Units consisted of the following for fiscal year 2002 (expressed in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Higher Education:				
Capital Assets Not Being Depreciated:				
Land	$ 3,869	$ 160	$	$ 4,029
Construction in Progress	22,631	25,413	12,524	35,520
Works of Art and Historical Treasures	7,415	31		7,446
Total Capital Assets Not Being Depreciated	33,915	25,604	12,524	46,995
Capital Assets Being Depreciated:				
Land Improvements	10,096	886	29	10,953
Infrastructure	15,706	410	24	16,092
Buildings	288,245	20,433	90	308,588
Equipment and Other Assets	125,234	9,294	1,484	133,044
Total Capital Assets Being Depreciated	439,281	31,023	1,627	468,677
Less: Accumulated Depreciation for:				
Land Improvements	4,500	401	9	4,892
Infrastructure	7,543	514	24	8,033
Buildings	129,791	7,659	70	137,380
Equipment and Other Assets	86,457	10,237	1,184	95,510
Total Accumulated Depreciation	228,291	18,811	1,287	245,815
Total Capital Assets Being Depreciated, Net	210,990	12,212	340	222,862
Total Higher Education Capital Assets, Net	244,905	37,816	12,864	269,857
South Dakota Housing Development Authority				
Capital Assets Being Depreciated:				
Equipment	2,945	194	111	3,028
Less: Accumulated Depreciation for:				
Equipment	1,307	284		1,591
Total Capital Assets Being Depreciated, Net	1,638	(90)	111	1,437
Total Discretely Presented Component Units, Net	$ 246,543	$ 37,726	$ 12,975	$ 271,294

C. Construction in Progress

The state has entered into contracts for the renovation and construction of buildings, structures, and infrastructure (highway projects). Commitments associated with construction in progress at June 30, 2002 are as follow:

	Amount
Primary Government	
Governmental Activities	
Land Improvements	$ 723
Buildings and Structures	3,716
Equipment	1,413
Infrastructure	170,498
Total Governmental Activities	176,350
Business-Type Activities	
Buildings and Structures	1,214
Total Primary Government	$ 177,564

Discretely Presented Component Units		
Higher Education		
Land Improvements	$	1,177
Buildings and Structures		31,169
Infrastructure		282
Equipment		2,892
Total Discretely Presented Component Units	$	35,520

7. RETIREMENT PLANS

South Dakota Retirement System, Plan Description: The South Dakota Retirement System (SDRS) is a cost-sharing, multiple-employer, public employee retirement system established to provide retirement, disability, and survivor benefits for employees of the state and its political subdivisions. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. The SDRS is considered part of the state of South Dakota financial reporting entity and is included in the state's financial report as a pension trust fund. Copies of the separately issued financial report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

As of June 30, 2002, the number of participating governmental employers was:

School Districts	187
State of South Dakota	1
Board of Regents	1
Municipalities	138
Counties	62
Boards and Commissions	73
Total Employers	462

The SDRS financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to governmental accounting for a pension trust fund. Revenue is recorded when earned and expenses recorded when incurred. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits are recorded when payable by law and refunds are paid and recorded upon receipt of an approved application.

Investments are carried at fair value to properly reflect the asset values of the fund at June 30, 2002. Fair values were determined based on closing market prices at June 30, 2002 for those securities traded on national and international stock exchanges and at the average of bid-and-asked quotations for those securities traded in the over-the-counter market. Investments not traded on any exchange are valued at fair value based on estimates made by management. The value of foreign securities in foreign currency amounts is expressed in U.S. dollars at the closing daily rate of exchange. Real estate is valued at market based upon annual appraisals. Net appreciation in the fair value of investments held at or traded during the twelve months prior to June 30, 2002 is determined using an average cost basis. Purchases and sales are recorded as of the trade date.

The equity securities include common stocks, preferred stocks, convertible debentures, arbitrage securities, and equity international funds. The fixed income securities include U.S. government and government-backed bonds and corporate bonds.

Foreign exchange rate gains and losses are included with the net appreciation in fair value in investments. Futures contracts are marked to market based on quoted futures prices with changes in fair value reflected in the current period.

Interest and dividends are accrued in the period they are earned.

Contributions: Covered employees are required by state law to contribute a percentage of their salary to SDRS as follows:

Class A members - 5%
(Effective 7-1-2002 - 6%)
Class B Judicial members - 9%
Class B Public Safety members - 8%

All participating employers are required to contribute an amount equal to the member's contributions. Members may make an additional contribution of 8/10 of 1% of compensation for optional spouse coverage.

Contributions during fiscal year 2002 totaling $124,856,203 ($66,311,285 employee and $58,544,918 employer) were made in accordance with statutory rates. These contributions represent 11.6% of current year covered payroll for all participating units. The employee contributions exceed the employer contributions because of optional spouse coverage contributions and employee service purchase payments. The employer contributions for fiscal years 2001 and 2000 were $55,697,940 and $52,622,437, respectively.

SDRS is funded by fixed member and employer contributions at a rate established by state law. On an annual basis, an independent actuarial valuation of SDRS is made to determine the adequacy of the fixed contractually-required contributions to pay the normal cost, expenses and amortize the frozen unfunded actuarial accrued liability. The June 30, 2002 actuarial valuation of the plan determined that the contractually-required employer contributions equal the requirements for the annual required contribution of the employers under GASB Statement No. 25.

SDRS allows participating entities to pay their deferred contributions for funding of accrued benefits over periods of up to 20 years and members to pay for the purchase of certain prior service over periods of up to 10 years. Interest is charged at rates of 5% to 8%. As of June 30, 2002, deferred contribution payments will be received as follows:

Year Ending June 30	Employers	Employees
2003	$ 38,923	$ 1,804,495
2004	34,743	867,951
2005	20,544	527,830
2006	10,559	336,171
2007		183,379
Later		197,010
	104,769	3,916,836
Less interest	10,135	484,023
Total	$ 94,634	$ 3,432,813

South Dakota Cement Commission Retirement Plans: The South Dakota Cement Commission (SDCC) administers the South Dakota Cement Pension Trust Fund (Fund). The fund consists of six defined benefit pension plans that cover all former employees of the State Cement Plant. The plans are noncontributory, single-employer, public employee retirement plans. The plans are actuarially funded, using the entry age normal, level percent of pay, funding method. The plans' funding policies provide for the unfunded actuarial accrued liability to be amortized as a level dollar over an open 20-year period. Based on this, the annual required contribution for 2002 is $873,800.

The retirement plans are frozen as to new participants, final average earnings, credited service, and primary social security benefits. The normal retirement age is 65, and early retirement is at age 55, with required credited service. The plans provide disability benefits to those former employees totally and permanently disabled on or before March 16, 2001. A survivor benefit will be paid to a surviving spouse provided: a) the spouse has dependent children; or, b) the surviving spouse has attained the age of 65; or, c) the employee had purchased the surviving spouse coverage option. Plan contributions are established by Administrative Rules of South Dakota.

Copies of a separately issued financial report on the plans may be obtained by writing to the South Dakota Department of Legislative Audit, 427 South Chapelle, % 500 East Capitol, or by calling (605) 773-3595.

The funds' financial statements are prepared on the accrual basis of accounting. Benefits are recorded when payable by administrative rule.

Investments are carried at fair value that is based on the quoted market price of each of the plans' investments. Interest and dividends are accrued in the period they are earned. The unrealized appreciation or depreciation in the current value of the investments held at June 30, 2002 and the realized gain or loss on sales of investments during the period then ended are determined using the average cost of the investments. Net assets totaling $2,816,076 were invested with the Provident Mutual Fund and represented 5% or more of the net assets available for benefits

At June 30, 2002, the fair value of net assets held in trust for pension benefits was $31,244,041.

Assets Held by Insurance Company: The Board of Regents, reported under the Higher Education component unit, joined the SDRS in July 1975. Prior to that time, the Board of Regents had a separate retirement plan through an insurance company under which their members contributed a percentage of their salary to the plan, with a matching amount contributed by the Board of Regents. Upon entering the SDRS, employees were given the option of keeping their contributions with the insurance company, or moving their assets to SDRS.

Upon retirement, members who contributed to the insurance company plan may apply for and receive benefits from the insurance company. In addition, they will receive benefits from the SDRS, with the member's calculated normal benefits from the SDRS being reduced accordingly by the amount they would have received had the funds held by the insurance company been held for the full period by the SDRS. The benefits received from the insurance company will be in the form of an annuity contract between the employee and the company. The state of South Dakota will not be responsible for any deficiencies that arise from these contracts, and the state will not be entitled to any excess funds remaining after the contracts have been fulfilled.

Department of Labor Employment Security Retirement Plan: Employees of the Department of Labor hired prior to July 1, 1980 had the option to become a member of the SDRS, or maintain membership in the Employment Security Retirement Plan. The Employment Security Retirement Plan is a defined benefit single employer plan administered through a private insurance carrier.

Financial statements are not available from the insurance company. The latest actuarial information available is as of July 1, 2001. The following actuarial information covers all employees of the active life plan, plus any cost-of-living increases granted to retired life plan participants after January 1, 1987.

For the fiscal year ended June 30, 2001 (most recent actuarial valuation date), the payroll and contributions for employees covered by the plan was $2,948,124 and $132,707, respectively. On June 30, 2001, participants in the plan consisted of the following:

Active Participants	88
Vested Terminated Participants	6
Retired Participants and Beneficiaries	203

Investments are carried at fair value to properly reflect asset values at June 30, 2001. Contributions are made by active life plan participants at 5% of their salaries. The Department of Labor has not contributed to the plan since 1994 and no future employer contributions are expected to be required, based on the actuarial assumptions used. The following is a schedule of funding progress:

Fiscal Year Ended June 30	Actuarially Net Assets Available For Benefits	Entry Age Normal Assets in Accrued Liability (AAL)	Percent Funded (1)-(2)	Annual Excess of AAL (1)-(2)	Annual Covered Payroll	Assets in Excess of AAL as a Percent of Covered Payroll (4)-(5)
1999	$ 57,210,946	$ 42,559,280	134.4	$ 1,651,666	$3,264,009	448.9
2000	$ 59,369,863	$ 44,456,018	133.5	$ 14,913,845	$3,035,791	491.3
2001	$ 56,174,491	$ 45,540,493	123.4	$ 10,633,998	$2,948,124	360.7

8. DEFERRED COMPENSATION PLAN

The state of South Dakota maintains a deferred compensation plan for the benefit of its employees created in accordance with Internal Revenue Code Section 457. The plan is available to all employees of the state and its political subdivisions. The plan permits participants to defer a portion of their salary until future years, thereby deferring taxation on the portion deferred. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable financial emergency.

All amounts of compensation deferred under the plan, all property and rights held by the fund, at all times until made available to a participant or the participant’s beneficiary, shall be held in trust for the exclusive benefit of the participants. The state has no liability for losses under the plan.

The assets of the deferred compensation plan are not included in the accompanying financial statements because the assets are remitted to a third-party administrator to hold in trust.

9. COMMITMENTS

Construction and Other Commitments: At June 30, 2002, the Department of Transportation had contractual construction commitments of $165,208,060 for various highway projects and maintenance commitments of $2,938,424. Financing for these future expenditures will be primarily from approved federal grants and highway use taxes.

The Department of Environment and Natural Resources had construction and other contractual commitments of $46,790,064 for various water development projects. Financing for these future expenditures will be from approved federal grants, legislative appropriations, and a bond issue. These commitments relate to the following funds/programs:

Clean Water State Revolving Fund	$19,100,929
Drinking Water State Revolving Fund	$ 6,743,524
Water and Environment Fund Program	$13,493,341
Federal Funds	$ 7,452,270

The Building Authority has construction contracts and other construction commitments of $4,883,639.

The South Dakota Housing Development Authority had commitments to purchase home-ownership mortgage loans aggregating approximately $34,340,454. Financing for these future expenditures will be from home-ownership mortgage bonds.

The Office of the Governor had construction and other contractual commitments of $22,446,412. Financing for these future expenditures will be from approved federal grants, from a previous 1% sales tax, and an employer's investment in South Dakota's future fee. These commitments relate to the following funds/programs:

Revolving Economic Development Initiative (REDI) Fund Grants/Loans	
Value-Added Agriculture Sub Fund	$ 223,292
REDI Fund Loans	$ 4,549,000
Economic Development Finance Authority, Agriculture Processing and Export Program (APEX)	$ 899,990
Community Development Block Grant (CDBG)	$13,152,586
Future Fund Program	$ 3,364,544
South Dakota Energy Program	$ 257,000

South Dakota State University has contractual construction commitments of $1,000,000.

The Petroleum Release Fund has commitments of $6,200,000.

The state of South Dakota, acting through the Department of Environment and Natural Resources, has contracted with the United States Environmental Protection Agency for participation in the reclamation and remediation of the former Gilt Edge and Brohm Mine in Lawrence County. The state is expected to pay 10% of the final costs of reclamation and remediation of the site, currently estimated to be $45 million. The state has already spent approximately $2.5 million from the Regulated Response Fund. The state had approximately $5.0 million in the form of a cash deposit contributed by Brohm for reclamation costs. The state's contribution to the costs of reclamation and remediation will come from the sums already expended from the Regulated Response Fund and from the cash deposit contributed by Brohm, together with interest earned on the cash deposit. After reclamation is completed, and after a holding period by the United States, the state will take control of the site. Costs incurred when the state takes control of the site cannot be anticipated at this time.

10. SELF-INSURANCE

A. Workers' Compensation Benefits and Unemployment Insurance

Various funds accumulate assets to cover risks that the state incurs in its normal operations. The state (rather than an insurance carrier) assumes the risk associated with claims of state employees for unemployment compensation benefits. "Premiums" charged to state funds to cover the costs of claims servicing and claims payments are based on a percentage of wages paid to state employees. Related transactions are accounted for in the State Unemployment Compensation Fund.

The state is self-insured for workers' compensation through the creation of reserves derived from a percentage of wages paid to state employees. This activity is accounted for in an internal service fund. Claims payable for workers' compensation is reported using an actuarial estimate based on historical experience that includes actual claims submitted as well as claims incurred, but not reported. Allocated claim adjustment expenses (those relating to a specific claim) are included in the determination of claims payable. Unallocated claim adjustment expenses are not included. Estimated recoveries on unsettled and/or settled claims reduce claims liability and are considered in the actuarial estimate. The claims liability is funded as claims are paid resulting in an actuarially determined unfunded liability of $11,760,799 at June 30, 2002. The Workers' Compensation Fund liability at June 30, 2002 and the changes to the liability during fiscal years ended June 30, 2002 and 2001 were as follows (expressed in thousands):

	FY2002	FY2001
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 17,909	$ 12,519
Incurred claims and claim adjustment expenses		
Provision for insured events of current fiscal year	536	2,686
Changes in provision for insured events of prior fiscal years	790	5,550
Total incurred claims and claim adjustment expenses	1,326	8,236
Payments		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	887	724
Claims and claim adjustment expenses attributable to insured events of prior fiscal year	1,819	2,122
Total payments	2,706	2,846
Unpaid claims and claim adjustment expenses at end of fiscal year	$ 16,529	$ 17,909

B. Health and Life Insurance

The state (rather than an insurance carrier) assumes substantially all risk associated with claims of covered public employees for health insurance and life insurance benefits (an insurance carrier, however, provides claims administration services for health insurance). The health and life insurance programs are accounted for in the Self-Insurance Internal Service Fund. "Premiums" are charged to state funds for all covered employees. Employees may purchase varying levels of health and/or life coverage for their spouses and/or dependents. Claims payable for health insurance is reported using an actuarial estimate based on historical experience that includes actual claims submitted as well as claims incurred, but not reported. Allocated claim adjustment expenses are included in the determination of claims payable. Unallocated claim adjustment expenses are not included. Estimated recoveries on unsettled and/or settled claims reduce claims liability and are considered in the actuarial estimate. Claims expenses and liabilities for life insurance are reported using a case-by-case review of claims. Allocated claim adjustment expenses are uncommon and immaterial. Unallocated claim adjustment expenses are not included. At the end of FY2002, $725,000 of the retained earnings balance in the self-insurance fund was designated for future catastrophic losses relating to life insurance. The health and life insurance programs liability at June 30, 2002 and the changes to the liability during fiscal years ended June 30, 2002 and 2001 were as follows (expressed in thousands):

	Health Insurance		Life Insurance	
	FY2002	FY2001	FY2002	FY2001
Unpaid claims and claim adjustment expenses at beginning of fiscal	$ 6,191	$ 6,026	$ 54	$ 108
Incurred claims and claim adjustment expenses	53,168	44,522	2,240	1,155
PAYMENTS:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	45,659	38,330	2,155	1,102
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	6,191	6,026	54	108
Total payments	51,850	44,356	2,209	1,210
Unpaid claims and claim adjustment expenses at end of fiscal year	$ 7,509	$ 6,192	$ 85	$ 53

C. Public Entity Pool for Liability

The state is insured through a Public Entity Pool for Liability Fund (PEPL), reported as an internal service fund. The PEPL Fund 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).

All funds and agencies of the state participate in the PEPL fund. The PEPL fund allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund and agency based on the number of automobiles titled to each agency (for automobile liability) or approved full-time employees (for general tort liability). The PEPL fund initially limited claims to $1,000,000 per occurrence, subject to limitations set forth in SDCL 3-22. The state claimed sovereign immunity for all other tort liabilities. A state Supreme Court opinion now allows noneconomic damages against employees of the state while they are performing ministerial acts; therefore, beginning in FY1996, the PEPL fund coverage document was amended to provide liability coverage for noneconomic damages that are the result of these acts and commercial reinsurance was purchased. Excess of loss reinsurance was purchased for claims costs between $100,000 and $1,000,000. Beginning in FY2002, the excess of loss reinsurance amount was changed to claims costs between $250,000 and $1,000,000.

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported, based on historical experience. Allocated claim adjustment expenses are included in the determination of claims payable. Unallocated claim adjustment expenses are not included. Estimated recoveries on unsettled and/or settled claims reduce claims liability and are considered in the actuarial estimate. At the end of FY2002, $6,232,526 of the retained earnings balance in the PEPL fund was designated for future catastrophic losses. The PEPL Fund liability at June 30, 2002 and the changes to the liability during fiscal years ended June 30, 2002 and 2001 were as follows (expressed in thousands):

	FY2002	FY2001
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 6,204	$ 5,949
Incurred claims and claim adjustment expenses		
Provision for insured events of current fiscal year	1,239	983
Changes in provision for insured events of prior fiscal years	628	12
Total incurred claims and claim adjustment expenses	1,867	995
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	242	183
Claims and claim adjustment expenses attributable to insured events of prior fiscal year	1,844	557
Amounts due from reinsurance	(296)	
Total payments	1,790	740
Unpaid claims and claim adjustment expenses at end of fiscal year	$ 6,281	$ 6,204

D. Risk Management

The state is commercially insured for boiler insurance, aircraft, and crime bonds through outside insurance companies. Entities participating in these insurance coverages are only billed for premiums applicable to their coverage needs. The state is uninsured for property losses, with the exception of bonded and revenue-producing buildings that are covered through outside insurance companies.

11. OPERATING LEASES

The state of South Dakota has entered into numerous agreements to lease land, buildings, and equipment. Most operating leases contain a provision that the state may renew leases on a year-to-year basis. In most cases, management expects the leases will be renewed or replaced by other leases of a similar nature.

The following schedule is a summary of future minimum rental payments by years required under operating leases with lease terms in excess of one year as of June 30, 2002 (expressed in thousands):

Fiscal Year Ended June 30,	Primary Government	Component Units	Total
2003	$ 4,273	$ 597	$ 4,870
2004	3,419	427	3,846
2005	2,336	214	2,550
2006	2,138	168	2,306
2007	1,582	149	1,731
2008-2012	5,562	504	6,066
2013-2017	5,632	0	5,632
2018-2022	268	0	268
TOTAL	$ 25,210	$ 2,059	$ 27,269

The total rental expenses for all operating leases for the fiscal year ended June 30, 2002 was $3,522,770 for the primary government and $695,740 for component units.

12. LONG-TERM LIABILITIES

Long-term obligations at June 30, 2002 and changes to long-term liabilities during the fiscal year then ended are as follows (expressed in thousands):

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Revenue Bonds	$ 105,584	$	$ 9,278	$ 96,306	$ 9,037
Trust Certificates	44,360		2,150	42,210	2,255
Compensated Absences	43,546	25,585	21,587	47,544	23,853
Policy Claims Liability	12,940	64,860	63,548	14,252	10,429
Workers Compensation	18,727	1,342	2,921	17,148	2,710
Capital Leases	39,927	4,732	6,291	38,368	4,876
Loans	148		104	44	44
Total Governmental Activities	265,232	96,519	105,879	255,872	53,204
Business-Type Activities					
Revenue Bonds	23,540	8,934	1,115	31,359	1,075
Compensated Absences	825	475	360	940	463
Capital Leases		25		25	5
Total Business-Type Activities	24,365	9,434	1,475	32,324	1,543
Component Units					
Revenue Bonds	1,542,217	361,445	338,516	1,565,146	37,178
Trust Certificates	8,270		1,295	6,975	1,390
Compensated Absences	27,558	11,239	10,092	28,705	8,668
Capital Leases	1,137		204	933	138
Rural Development Loans	2,343	112	86	2,369	87
Federal Portion of Perkins Loan Program	30,559	558		31,117	
Total Component Units	1,612,084	373,.354	350,193	1,635,245	44,461
Total Long-Term Obligations	$ 1,901,681	$ 479,307	$ 457,547	$ 1,923,441	$ 99,208

Revenue Bonds and Trust Certificates

A. Governmental Activities

Building Authority

The Building Authority issues bonds and trust certificates to finance the cost to acquire, construct, remodel, maintain, and equip buildings and other facilities of state departments and institutions. Bonds and certificates of participation are payable from revenues generated through lease agreements between the Building Authority and state departments and institutions. Lease payments for bonds and certificates of participation are paid from the state general fund and other state dedicated fees of state departments, boards, and commissions, and an annuity.

The Building Authority sold trust certificates to a trustee bank and assigned the right to receive lease rental payments over to the trustee bank. The principal and interest payments on the certificates are payable solely from amounts payable by the state under lease agreements. The certificates are not an indebtedness of the state within the meaning of any constitutional or statutory debt limit, nor may the certificates be a claim against the property of the authority.

The indebtedness or obligations incurred or created by the Building Authority may not be or become a lien, charge, or liability against the state of South Dakota. This financial presentation does not change the legal liability of the indebtedness.

Following are Building Authority bonds and trust certificates outstanding at June 30, 2002 (expressed in thousands):

	Maturity Through	Interest Rates	Amount
Bond Series:			
1993B	2013	4.875%-5.450%	$ 147
1996A	2016	4.400%-5.950%	85,261
1996C	2014	4.100%-5.300%	7,587
1996D	2011	5.200%-6.000%	1,880
1999	2020	4.500%-6.500%	1,431
Total Bonds			96,306
Trust Certificate Series:			
1991A&B	2016	4.700%-6.750%	14,060
1993A&B	2017	6.300%-8.300%	28,150
Total Trust Certificates			42,210
Total			$ 138,516

As of June 30, 2002, debt service requirements for principal and interest for the Building Authority were as follows (expressed in thousands):

Year Ended June 30,	Principal	Interest	Total
2003	$ 11,288	$ 7,154	$ 18,442
2004	11,250	6,574	17,824
2005	11,200	5,996	17,196
2006	11,139	5,383	16,522
2007	11,109	4,735	15,844
2008-2012	51,889	14,821	66,710
2013-2017	27,889	15,743	43,632
2018-2022	2,752	91	2,843
Total	$ 138,516	$ 60,497	$ 199,013

B. Business-Type Activities

State Revolving Funds

The South Dakota Conservancy District issued tax-exempt revenue bonds for the Clean Water State Revolving Fund (CWSRF) and for the Drinking Water State Revolving Fund (DWSRF). The SRF's provide low interest loans or other types of financial assistance to political units for the construction of publicly-owned wastewater treatment facilities, implementation of nonpoint source management programs, development and implementation of plans under the new Estuary Protection Program, and construction and maintenance of drinking water facilities, respectively. To date, the program has been used to make loans and refinance existing debt with a maximum of twenty years for repayment. Loans for the DWSRF can be made for 30 years, if the funds are for a disadvantaged community.

The South Dakota Conservancy District bonds do not constitute a debt or liability of the state of South Dakota, or a pledge of the faith and credit of the state. The bonds are paid solely from the interest earned on the loan repayments for the CWSRF and the DWSRF of $2.3 million and $724,000, respectively. If necessary, a legislative appropriation of $1,200,000 is available for the CWSRF only.

The following is a schedule of outstanding bonds as of June 30, 2002 (expressed in thousands):

Bond Series	Maturity Through	Interest Rates	Amount
Clean Water State Revolving Fund			
1994A	2012	3.10%-5.30%	$ 7,320
1995A	2015	5.00%-6.20%	6,590
1996A	2017	4.40%-6.625%	2,485
2001	2017	4.00%-5.00%	4,405
Less Unamortized Loss on Refundings			(741)
Total			20,059
Drinking Water State Revolving Fund			
1998A	2019	3.9%-5.00%	6,030
2001	2022	4.00%-5.00%	5,270
Total			11,300
Total Revenue Bonds			$ 31,359

As of June 30, 2002, debt service requirements for principal and interest for the CWSRF and the DWSRF were as follows (expressed in thousands):

Year Ended June 30,	Principal	Interest	Total
Clean Water State Revolving Fund			
2003	$ 945	$ 1,080	$ 2,025
2004	1,125	1,030	2,155
2005	1,185	973	2,158
2006	1,245	913	2,158
2007	1,305	849	2,154
2008-2012	7,625	3,109	10,734
2013-2017	5,380	1,129	6,509
2018-2022	1,660	275	1,935
2023	330	8	338
Total	20,800	9,366	30,166
Drinking Water State Revolving Fund			
2003	225	530	755
2004	400	517	917
2005	415	501	916
2006	440	483	923
2007	455	463	918
2008-2012	2,590	1,995	4,585
2013-2017	3,260	1,302	4,562
2018-2022	3,115	431	3,546
2023	400	10	410
Total	11,300	6,232	17,532
Total	$ 32,100	$ 15,598	$ 47,698

C. Component Units

1. Housing Development Authority

The Housing Development Authority provides mortgage financing for construction, rehabilitation, and purchase of residential housing and assists in coordinating with federal, state, regional, and local public and private efforts with statewide housing planning. The authority issues negotiable notes and bonds in amounts authorized by the Governor of South Dakota. Notes and bonds of the authority do not constitute a debt or liability of the state of South Dakota, or a pledge of the faith and credit of the state. These notes and bonds are payable solely from the revenues or assets of the authority.

Following is a schedule of bonds, consolidated by category, outstanding at June 30, 2002 (expressed in thousands):

	Maturity Through	Interest Rates	Amount
Home Ownership Mortgage Program	2002-2033	2.05%-7.125%	
Serial Bonds			$ 237,360
Term Bonds			1,141,920
Plus Unamortized Discount			230
Total			1,379,510
Multifamily Housing Trust Funds	2006-2022	1.70%-8.375%	
Serial Bonds			16,810
Term Bonds			34,555
Less Unamortized loss on Refunding			(547)
Total			50,818
Multifamily Housing Revenue Bonds			
Term Bonds	2031-2034	1.40%	19,495
Multifamily Mortgage Pass-Through Bonds	2010-2015	3.75%-9.00%	
Term Bonds			15,711
Housing Development Revenue Bonds			
Term Bonds	2004	4.00%	930
Multifamily Risk Sharing Bonds	2004-2043	2.90%-5.85%	
Serial Bonds			490
Term Bonds			14,375
Total			14,865
Total Bonds			$ 1,481,329

As of June 30, 2002, debt service requirements for principal and interest for the Housing Development Authority were as follows (expressed in thousands):

Year Ended June 30,	Principal	Interest	Total
2003	$ 29,863	$ 77,730	$ 107,593
2004	121,344	74,832	196,176
2005	35,156	72,864	108,020
2006	35,401	71,188	106,589
2007	36,322	69,414	105,736
2008-2012	198,937	316,867	515,804
2013-2017	250,198	256,866	507,064
2018-2022	250,375	185,346	435,721
2023-2027	295,985	110,231	406,216
2028-2032	208,415	32,080	240,495
2033-2037	16,195	2,069	18,264
2038-2042	2,735	616	3,351
2043-2047	720	39	759
Total	$ 1,481,646	$1,270,142	$2,751,788

2. Building Authority

The authority issues taxable revenue bonds for the Conservation Reserve Enhancement Program (CREP). The CREP involves making loans to certain individuals who have CREP contracts with the Commodity Credit Corporation (CCC) of the U.S. Department of Agriculture. Under this program, certain individuals enter into ten-year contracts with the CCC and receive annual payments for performing specified conservation practices.

Annual CREP payments made to the authority will be used by the trustee to make the debt service payments on the bonds. Bonds of the authority do not constitute a debt or liability of the state of South Dakota, or a pledge of the faith and credit of the state. These bonds are payable solely from the revenues or assets of the authority.

The following is a schedule of bonds outstanding for the CREP Program as of June 30, 2002 (expressed in thousands):

Bond Series	Maturity Through	Interest Rates	Amount
Third	2002	8.08%-8.94%	$ 131
1998A	2009	5.80%-6.50%	5,630
Total			$ 5,761

As of June 30, 2002, debt service requirements for principal and interest for the CREP Program were as follows (expressed in thousands):

Year Ended June 30,	Principal	Interest	Total
2003	$ 891	$ 335	$ 1,226
2004	805	283	1,088
2005	860	231	1,091
2006	915	175	1,090
2007	970	115	1,085
2008-2012	1,320	63	1,383
Total	$ 5,761	$ 1,202	$ 6,963

3. South Dakota Economic Development Finance Authority

The Authority was established for the purpose of making loans to businesses for the acquisition and construction of land, buildings, machinery and equipment to spawn economic growth. The Authority is authorized by South Dakota Codified Law to provide sufficient funds for achieving any of its corporate purposes. The total outstanding amount of such notes and bonds shall not exceed $300 million at any time. No obligation issued by the Authority shall constitute debt or liability or obligation of the state of South Dakota, or any political subdivision or a pledge of the faith and credit of the state or any political subdivision.

The Authority issues pooled and stand alone bond issues. A pooled bond issue is secured by the Authority's Capital Reserve Account. A stand alone issue is based solely on the credit of the borrower and the Authority acts only as a conduit to the financing. Therefore, the debt is not included in the accompanying financial statements.

The pooled bond issues require amounts to be deposited into the Capital Reserve Account. The monies on deposit in the Capital Reserve Account are irrevocably pledged to the payment of all outstanding bonds and interest only when and to the extent that other monies are not available. The amount on deposit in the Capital Reserve Account must be equal to 12½% of the related bond principal outstanding. Amounts in excess of the reserve requirements may be transferred to any state fund to be used for other purposes. At June 30, 2002, the balance in the Capital Reserve Account was $2,529,000 and the reserve requirement was $2,500,000.

The 1996B (Technical Ordinance) Series bond issue required a Special Reserve Account of at least $500,000. The amount in excess of $500,000 may be transferred to the Capital Reserve Account on April 1 of each year, if the loan is not in default. At June 30, 2002, the balance in the Special Reserve Account was $505,000.

The following is a schedule of outstanding bonds as of June 30, 2002 (expressed in thousands):

Bond Series	Maturity Through	Interest Rates	Amount
1987A	2007	9.00%	$ 145
1996A	2009-2016	5.00%-6.75%	1,560
1996B	2007	5.75%	925
1993C	2006	5.85%	430
1996D	2007	4.50%-5.90%	525
1998A	2018	5.50%	685
1998B	2009	7.00%	275
1999	2009-2019	4.95%-5.50%	2,175
Total			$ 6,720

As of June 30, 2002, debt service requirements for principal and interest for the South Dakota Economic Development Finance Authority were as follows (expressed in thousands):

Year Ended June 30,	Principal	Interest	Total
2003	$ 580	$ 395	$ 975
2004	610	361	971
2005	645	325	970
2006	670	287	957
2007	605	247	852
2008-2012	1,415	903	2,318
2013-2017	1,735	426	2,161
2018-2022	460	36	496
Total	$ 6,720	$ 2,980	$ 9,700

4. Higher Education

a. Higher Education Facilities

Revenue bonds were issued for the purpose of constructing buildings. The bonds are payable only from and secured by a pledge of net revenues of the University Housing and Auxiliary Facilities System. Net revenue is defined as gross revenue, less reasonable and necessary costs of currently maintaining, repairing, insuring, and operating the University Housing and Auxiliary Facilities System. Total net revenue pledges for FY2002 equaled $2,784,420.
Following are revenue bonds outstanding at June 30, 2002 (expressed in thousands):

Issue	Amount
School of Mines and Technology	
1973C	$ 348
University of South Dakota	
1974 Refunding	758
South Dakota State University	
1972	1,225
1994A	12,700
Less Deferred Charges	(480)
Northern State University	
1984G	250
1998	2,590
Dakota State University	
1984 Refunding	870
1995	2,590
Black Hills State University	
1965C	74
1968D	68
1993	4,155
1995	3,575
Total	$ 28,723

As of June 30, 2002, debt service requirements for principal and interest were as follows (expressed in thousands):

Year Ended June 30,	Principal	Interest	Total
2003	$ 939	$ 1,452	$ 2,391
2004	976	1,412	2,388
2005	1,028	1,369	2,397
2006	1,065	1,318	2,383
2007	1,042	1,275	2,317
2008-2012	6,042	5,572	11,614
2013-2017	7,480	3,927	11,407
2018-2022	8,636	1,819	10,455
2023-2027	1,995	204	2,199
Total	$ 29,203	$ 18,348	$ 47,551

b. Building Authority

The Building Authority issues bonds and trust certificates to finance the cost to acquire, construct, remodel, maintain, and equip buildings and other facilities for higher education institutions. Lease payments are made from tuition and fees paid by students. The obligations incurred or created by the Building Authority may not be a lien, charge, or liability against the state of South Dakota.

Following is a schedule of bonds and certificates outstanding at June 30, 2002 (expressed in thousands):

Bond Series	Maturity Through	Interest Rates	Amount
Revenue Bonds			
1993A	2012	4.600%-6.500%	$ 4,730
1993B	2013	4.875%-5.450%	3,963
1995A	2015	4.850%-6.250%	8,785
1996C	2014	4.100%-5.300%	3,713
1997	2021	5.00%	2,193
1999 Refunding			214
1999 New	2019	4.500%-6.500%	7,615
2000	2025	4.500%-6.500%	6,400
2002	2026	4.40%-5.75%	5,000
Total Revenue Bonds			42,613
Trust Certificates			
1991B	2013	4.700%-6.625%	1,605
1993B	2005	6.40%-8.00%	5,370
Total Trust Certificates			6,975
Total			$ 49,588

As of June 30, 2002, debt service requirements for principal and interest for the Building Authority (higher education portion) were as follows (expressed in thousands):

Year Ended June 30,	Principal	Interest	Total
2003	$ 3,317	$ 2,623	$ 5,940
2004	3,655	2,449	6,104
2005	3,890	2,219	6,109
2006	4,066	1,976	6,042
2007	2,751	1,780	4,531
2008-2012	14,546	6,539	21,085
2013-2017	8,827	3,274	12,101
2018-2022	5,616	1,464	7,080
2023-2027	2,920	327	3,247
Total	$ 49,588	$ 22,651	$ 72,239

Capital Leases

The state has entered into various agreements to lease buildings, vehicles, and equipment. FASB Statement No. 13, "Accounting For Leases", requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee be accounted for as the acquisition of a fixed asset and the incurrence of an obligation by the lessee (a capital lease).

Capital lease obligations are recorded as liabilities in the government-wide and proprietary fund financial statements.

The following schedule is a summary of the future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2002 (expressed in thousands):

	Primary Government			
Fiscal Year Ended June 30,	Governmental Activity	Business-Type Activity	Component Units	Total
2003	$ 6,742	$ 6	$ 193	$ 6,941
2004	6,022	6	142	6,170
2005	4,614	6	142	4,762
2006	3,657	6	142	3,805
2007	2,634	3	142	2,779
FY2008-2012	13,054		415	13,469
FY 2013-2017	8,805			8,805
FY 2018-2022	7,531			7,531
FY2023-2027	2,695			2,695
Total Minimum Lease Payments	55,754	27	1,176	56,957
Less: Amounts Representing Interest	17,386	2	243	17,631
Present Value of Future Minimum Lease Payments	$ 38,368	$ 25	$ 933	$ 39,326

The historical cost and depreciation of assets acquired under capital leases and included in capital assets on the government-wide financial statements at June 30, 2002 are as follows:

	Primary Government	
	Governmental Activities	Business-Type Activities
Land	$	$ 28
Vocational Education Buildings	41,481	
Equipment	2,016	
Vehicles	14,173	
Total	57,670	28
Less Accumulated Depreciation	12,840	
Total	$ 44,830	$ 28

Bureau of Administration

The city of Pierre installed an electrical upgrade to the capitol complex. The state entered into a long-term contract with the city of Pierre to pay for the costs of the upgrade. As of June 30, 2002, debt service requirements for principal and interest for the internal service fund were $43,875 and $940, respectively. This debt is due and payable during fiscal year 2003.

Conduit Debt Obligations

Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by state government for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. The state has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued and the debt is not included in the accompanying financial statements.

1. South Dakota Railroad Authority

The South Dakota Railroad Authority is responsible for improving rail service in the state. The authority is authorized to acquire property and construct, maintain, and equip railroad facilities pursuant to legislative declarations. The authority is also authorized to issue revenue bonds and participating interests in mortgage notes in amounts authorized by the state legislature. In 1996, the authority purchased rail facilities through the sale of $20,000,000 of revenue bonds. Dakota, Minnesota and Eastern Railroad received $14,500,000 of the bond proceeds. Additionally, a $10,000,000 loan agreement was entered into between Dakota, Minnesota and Eastern Railroad Corporation and First National Bank of Brookings. The proceeds for the loan consisted of $5,500,000 from the bond proceeds, $4,000,000 from an institutional investor, and $500,000 from the First National Bank. The bonds will be paid off with proceeds from a lease agreement with Dakota, Minnesota and Eastern Railroad Corporation with principal payments of $14,500,000 and bank loan payments of $5,500,000. Dakota, Minnesota and Eastern Railroad Corporation will be responsible for paying the two institutional investors $4,500,000 on the loan. As of June 30, 2002, $15,125,000 in revenue bonds and $3,403,125 in a bank loan was outstanding.

2. South Dakota Value Added Finance Authority

The South Dakota Value Added Finance Authority provides low interest financing to agricultural enterprises in the state of South Dakota. The loans can be used to acquire agricultural property. The authority is authorized to issue federal tax-exempt bonds. The bond proceeds are lent to qualifying applicants. The applicant assumes the bond payment obligation to the bond purchaser in the form of a loan with the third party bond purchaser.

As of June 30, 2002, there were 229 Beginning Farmer Bond Program series revenue bonds outstanding. The aggregate principal amount payable on June 30, 2002 could not be determined; however, the original issue amount totaled $23,607,694.

As of June 30, 2002, there were four Agribusiness Bonding Program series revenue bonds outstanding. The aggregate principal amount payable on June 30, 2002 could not be determined; however, the original issue amount totaled $1,820,000.

As of June 30, 2002 there were three Agribusiness Relending Loans outstanding. The aggregate principal amount payable at June 30, 2002 could not be determined: however, the original issue amount totaled $128,250.

3. South Dakota Economic Development Finance Authority

The authority issues tax-exempt debt for the purpose of financing a company's acquisition and construction of land, buildings, machinery, and equipment to spawn economic growth. The bonds are special obligations of the authority to which the payments paid by the company pursuant to a loan agreement have been and are hereby irrevocably pledged.

As of June 30, 2002, the aggregate amount of stand-alone bond principal outstanding was $25,989,063. The original issue amount of stand-alone bonds totaled $31,920,000.

Refunded Bonds

1. Building Authority

The Building Authority defeased certain refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2002, $48,660,000 of the Building Authority bonds outstanding is considered defeased.

2. Higher Education

Black Hills State University and South Dakota State University defeased certain refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2002, $13,695,000 of university bonds outstanding is considered defeased. At June 30, 2002 bonds payable is reported net of unamortized charges of $480,578.

3. South Dakota Conservancy District

The South Dakota Conservancy District defeased certain refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2002, $6,435,000 of the South Dakota Conservancy District bonds outstanding is considered defeased. As a result of these advanced refundings, the difference between the reacquisition price and the net carrying amount of the old debt is being amortized over the life of the new bonds. At June 30, 2002, bonds payable is reported net of unamortized charges of $740,704.

13. FUNCTIONAL DISTRIBUTION OF HIGHER EDUCATION OPERATING EXPENSES

The operating expenses on the Statement of Revenues, Expenses, and Changes in Net Assets are presented in natural classifications. The following table presents those same expenses in functional classifications as recommended by NACUBO (expressed in thousands):

Function	Personal Services	Travel	Contractual	Supplies & Noncapitalized Equipment	Grants & Subsidies	Interest and Other Expenses	Depreciation
Instruction	$ 101,129	$ 1,657	$ 5,273	$ 5,320	$ 184	$ 157	$ 1,870
Research	22,253	1,514	2,607	5,260	2,172		1,211
Public Service	21,870	1,285	5,243	3,464	1,414	3	177
Academic Support	22,765	892	4,078	3,331	21	1	2,654
Student Services	14,773	1,933	3,363	2,985	157	749	171
Institutional Support	19,800	629	1,947	4,208	1,343	18	595
O&M of Plant	10,088	123	2,911	4,334		2,619	1,318
Scholarships and Fellowships	977		41	7	11,696		
Auxilliary Enterprises	9,246	81	13,534	10,336	4		1,127
Other Expenses			772	297		233	
Unallocated Depreciation							5,669
Total	$ 222,901	$ 8,114	$ 39,769	$ 39,542	$ 16,991	$ 3,780	$ 14,792

14. DEFICIT FUND EQUITY

The following individual funds had deficit fund equity at June 30, 2002 (expressed in thousands).

FUND TYPE/FUND	DEFICIT
Enterprise:	
Second Injury	$ 1,192
State Fair	454
Internal Service:	
State Worker's Compensation	$ 11,761
Personnel	192
Special Revenue:	
Fire Suppression	$ 1,692
Office of History	143
Federal Parks and Recreation	133

15. VOCATIONAL TECHNICAL INSTITUTES

The state primary government has an ongoing financial responsibility for the funding of four technical institutes in the state. The technical institutes are considered part of the local school districts in the district where they are located. By law, the state may adopt rules governing the operation of the technical institutes including curriculum, tuition payments and other charges, and plans for construction or renovation of facilities. During fiscal year 2002, the state provided $14,312,800 in general fund state aid payments to the technical institutes.

Construction and renovation of facilities is funded with proceeds from debt issued by the Health and Education

Facilities Authority. The Health and Educational Facilities Authority was created as a public instrumentality of the state to provide tax-exempt revenue bonds, notes or other obligations on behalf of nonprofit health and educational institutions within the state. Although the state primary government appoints a voting majority of the board, the state's accountability for this organization does not extend beyond making the appointments and is considered a related organization of the state.

The state enters into lease purchase agreements with the Health and Educational Facilities Authority and sub-leases the facilities to the school districts. The state makes lease payments to the Health and Educational Facilities Authority from a combination of state general fund appropriations, interest earnings from a special revenue fund and from student facility fees collected by the technical institutes and remitted to the state. Upon completion of payments under the lease agreements, titles to the facilities pass to the state. The sub-lease agreements with the school districts are then extended annually as long as the school districts pay the state $100 per year and continue to use the facilities for postsecondary vocational education.

Facilities constructed or renovated and the lease purchase agreements between the state and the Health and Educational Facilities Authority are reported under the governmental activities column in the government-wide Statement of Net Assets.

16. CONTINGENCIES AND LITIGATION

The state of South Dakota participates in a number of federally assisted grant programs. These programs are subject to audits by the grantors or their representatives. Any disallowance as a result of these audits may become a liability of the state. During fiscal year 2002, the state reimbursed the federal government $1,299,690 for disallowed Title XIX program costs. An expenditure and the related liability have been accrued in the general fund for an additional $2,745,161 in disallowed Title XIX program costs and related interest. The Federal Department of Health and Human Services' Appeals Board upheld this disallowance on September 20, 2002. The state has appealed this decision to the federal courts.

The state of South Dakota is party to numerous legal proceedings, many of which occur in the normal course of governmental operation. Adverse judgment of these lawsuits could result in liabilities to the state. Based on prior experience, it is unlikely that the outcome of these claims will materially affect the financial position of the state. The contingent liabilities at June 30, 2002 are as follows:

The Petroleum Release Compensation Fund (PRCF) provides reimbursement for remediation of sites where a petroleum release has occurred. As of June 30, 2002, the PRCF was currently involved with 356 active cases, 347 active/monitoring cases, and 15 pending cases (spill report not yet filed), for a total of 718 cases. Contingent liabilities for the PRCF are $7,800,000 for sites that haven't received any payments.

Jandrain v. Hough. This matter is a personal injury action against employees of the South Dakota Department of Transportation. The plaintiff was rendered a quadriplegic in a truck rollover accident in Pennington County. His suit claims that employees of the South Dakota Department of Transportation were negligent in the manner in which they applied a certain surface to a state highway. If the plaintiff is ultimately successful, the state will be required to pay damages, which will have a material impact on the PEPL Fund.

Davis v. Zerbe. This matter is a civil rights case against a highway patrol employee. The plaintiff was shot by the highway patrol employee in Meade County, South Dakota. The plaintiff is very likely to obtain a verdict with regard to liability. Attorneys working on this case believe the range of damages awarded would not exceed $300,000. If the plaintiff is ultimately successful, the amount would have a material impact on the PEPL Fund.

Westphal v. Wulf and the Department of Transportation. This matter involves a fatality car accident in the Sioux Falls, South Dakota area. The case is currently on appeal to the South Dakota Supreme Court. Damages are currently unknown and attorneys for the case believe the likelihood of an unfavorable outcome is low.

Steven Chaney Claim. This matter involves a pickup/bicycle accident in Chamberlain. A Game, Fish, & Parks employee backed into a juvenile on a bicycle. An unfavorable outcome is likely. Damages are currently unknown.

Miller v. Stover. This matter involves a fatal collision between a van operated by a Department of Corrections employee and a pickup in Custer County, South Dakota. The likelihood of an unfavorable outcome is high. Attorneys for this case believe the damages will not exceed $500,000. This amount would have a material impact on the PEPL Fund.

Northern Telecom, Inc. v. Department of Revenue. Northern Telecom, Inc. has brought a sales tax refund action contesting the payment of taxes accruing from 1986 to the present, currently in the amount of $1,041,748 plus interest, which would be payable at 1.25% per month on any refunded amount. The case is at the administrative hearing level and counsel is currently awaiting a decision from the Office of Hearing Examiners. The Department of Revenue is vigorously defending the action. While potential damages awarded cannot be estimated, it is possible damages awarded could have a material impact on the state's general fund.

Loren Pourier, dba Muddy Creek Oil and Gas Inc. and Muddy Creek Oil and Gas Inc. v. Department of Revenue. Pourier has brought a motor fuel tax refund action contesting the payment of taxes accruing from July 1995 through January 13, 2000. The Supreme Court held that the Department of Revenue could not impose the state motor fuel tax on Indians in Indian country. On March 17, 2003, the Department of Revenue filed a Petition for Rehearing. If the decision is left standing, the refund could have a material impact on the state's general fund.

Ernst & Young v. South Dakota Department of Revenue. Ernst & Young has brought a sales tax refund action contesting the payment of taxes accruing from 1994 to 1996, in the amount of $1,125,000 plus interest. The case is on appeal at the circuit court level. Counsel for the Department of Revenue is vigorously defending this action. If awarded, the amount of refunds could have a material impact on the state's general fund.

SDDS Inc. v. State of South Dakota. This is an inverse condemnation action filed in state court by South Dakota Disposal System Incorporated (SDDS) concerning the operation of a solid waste facility. The matter was tried before a jury in Hughes County, South Dakota Circuit Court. The plaintiff obtained a verdict. The Circuit Court later vacated the verdict. The case is currently scheduled for re-trial in July 2003. The vacated judgment is in the amount of approximately $10,100,000 with $4,000,000 of interest as of the judgment's date. The attorneys working on this case are unable to express any opinion regarding the likelihood of success at the re-trial, or the risk of an unfavorable outcome.

Crow Creek Sioux Tribe v. Caldera and South Dakota. Crow Creek Sioux Tribe has instituted an action in Federal District Court, Washington, D.C., to restrain the transfer of property from the United States to South Dakota. The property consists of about 13,600 acres of recreation areas required to be transferred on January 1, 2002 and 70,000 acres of nonrecreation area, which is to be transferred approximately in 2007. The Federal District Court has denied a preliminary injunction to restrain the transfer and the recreation lands were actually transferred to the state on February 8, 2002. The tribe appealed the denial to the Court of Appeals for the District of Columbia, argument was held on March 17, 2003, and a decision is pending. Congress is funding a Wildlife Habitat Restoration Fund for South Dakota in the amount of $10,000,000 per year and will continue to fund it until it reaches $108,000,000. If the transfer were to be negated, it is possible that this would also be lost. Counsel for the state is of the opinion that the risk the transfer will be set aside is not substantial.

17. SUBSEQUENT EVENTS

Housing Authority

In August of 2002, the Authority issued $60,000,000 of Homeownership Mortgage Bonds Series 2002 F and G. The bonds will mature on May 1, 2004, through May 1, 2033, with interest rates from 2.00% to 5.30%. In August of 2002, the Authority issued $2,555,000 of Multifamily Housing Revenue Bonds Series 2002 A. The bonds will mature on August 1, 2004, through August 1, 2033, with interest rates from 2.00% to 5.35%. In December 2002, the Authority issued $50,000,000 of Homeownership Mortgage Bonds Series 2002 H and I. The bonds will mature on May 1, 2004, through May 1, 2033, with interest rates from 2.10% to 5.25%. In December of 2002, the Authority issued $19,980,000 of Multiple Purpose Bonds 2002 Series B. The bonds will mature on November 1, 2003, through November 1, 2021, with interest rates from 1.90% to 5.10%.

Building Authority

On February 1, 2003, the Authority issued $15,785,000 of Series 2003 Bonds. The bonds will mature on September 1, 2003, through September 1, 2015, with interest rates from 2.50% to 5.00%.

South Dakota Railroad Authority

On August 26, 2002, $15,125,000 in revenue bond and a $3,403,125 bank loan were tendered as a result of a Dakota, Minnesota & Eastern Railroads purchase offer. Bondholders were paid on August 27, 2002.

Educational Enhancement Funding Corporation

During the 2001 Legislative session, the legislature authorized the South Dakota Building Authority to provide for the establishment of a corporation for the purpose of selling a portion or all of the state's rights, title and interest in the proceeds of the tobacco companies master settlement agreement. On July 26, 2002, the Educational Enhancement Funding Corporation was created pursuant to South Dakota Codified Law 5-12-48 through 5-12-60. On September 24, 2002, the Corporation issued $278,045,000 aggregate principal amount of Tobacco Settlement Asset-Backed Bonds, consisting of $148,505,000 Series 2002A (Taxable) and $129,540,000 Series 2002B (Tax Exempt). The Series 2002A Bonds are issued as a term bond maturing on June 1, 2025 and the Series 2002B Bonds are issued as a term bond maturing on June 1, 2032. The interest rate on the Series 2002A & B Bonds, respectively, is 6.72% & 6.50%. This transaction was not completed at an arm's length. The state of South Dakota gave up its rights to any proceeds of the tobacco companies master settlement agreement while the bonds are outstanding, or over the term of the bonds, whichever is shorter, in exchange for a lump sum payment of $243,596,553. Any tobacco settlement proceeds not required to pay principle or interest on the bonds, or administrative or transaction expenses of the corporation or authority, or to fund reserves or other requirements relating to the bond issue shall be reverted to the state.

Economic Development Finance Authority

On March 1, 2003, the Authority issued $2,400,000 of Series 2003A Bonds. The bonds were issued for the purpose of providing funds to the Authority to make a loan to Angus Industries, Inc. The bonds will mature on April 1, 2005 through April 1, 2013, with interest rates from 3.00% to 5.25%.

Inheritance Tax

On December 9, 2002, the Department of Revenue received an estate tax remittance of $21,385,259. In accordance with state law, ten percent of the remittance was distributed to the county of the estate and the balance was deposited to the state general fund.