

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND**

AUDIT REPORT

Fiscal Year Ended June 30, 2014



**State of South Dakota
Department of Legislative Audit
427 South Chapelle
%500 East Capitol
Pierre, SD 57501-5070**

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
TABLE OF CONTENTS**

Independent Auditors Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor's Report	3
Financial Statements:	
Management's Discussion and Analysis	6
As of June 30, 2014:	
Statement of Net Position	10
For the Fiscal Year Ended June 30, 2014:	
Statement of Revenues, Expenses and Changes in Fund Net Position	11
Statement of Cash Flows	12
Notes to the Financial Statements	13



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Dennis Daugaard
Governor of South Dakota

and

South Dakota Board of Water and Natural Resources

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Drinking Water State Revolving Fund, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in fund net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Drinking Water State Revolving Fund's basic financial statements and have issued our report thereon dated December 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the South Dakota Board of Water and Natural Resources' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Dakota Board of Water and Natural Resources' internal control. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Board of Water and Natural Resources' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

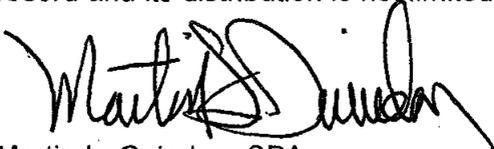
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

December 9, 2014



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AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

South Dakota Board of Water and Natural Resources

Report on the Financial Statements

We have audited the accompanying financial statements of the Drinking Water State Revolving Fund, a fund of the Board of Water and Natural Resources, a blended component unit of the State of South Dakota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Drinking Water State Revolving Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Drinking Water State Revolving Fund as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As described in Note 1.I. to the financial statements, the Board of Water and Natural Resources adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Drinking Water State Revolving Fund has restated beginning net position to account for bond issuance costs in accordance with this statement. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As described in Note 1.A., the financial statements present only the financial position and changes in financial position and cash flows of the Drinking Water State Revolving Fund. They do not purport to, and do not, present fairly the financial position of the Board of Water and Natural Resources as of June 30, 2014, and the changes in its financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's

responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014 on our consideration of the South Dakota Board of Water and Natural Resources' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the South Dakota Board of Water and Natural Resources' internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

December 9, 2014

SOUTH DAKOTA BOARD OF WATER AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Dakota Department of Environment and Natural Resources Drinking Water State Revolving Fund's (Fund) financial report presents a narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2014. This analysis has been prepared by management of the Department, and is intended to be read in conjunction with the Fund's financial statements and related footnotes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements include: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Fund Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Statement of Net Position presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how the Fund's net position changed during the most recent fiscal year.

The Statement of Cash Flows presents the Fund's flows of cash by defined categories. The primary purpose of the Statement of Cash Flows is to provide information about the Fund's cash receipts and payments during the year.

The Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

ANALYSIS OF BALANCES AND TRANSACTIONS OF THE DRINKING WATER STATE REVOLVING FUND

Changes in Net Position

For the fiscal year ended June 30, 2014, net position of the Fund increased by 2.5% – primarily due to total revenues for the Fund amounting to \$4,366,956 more than total expenses. Operating revenue remained basically the same from the previous year, however operating expenses decreased by 9.6% mainly due to a smaller amount of loan principal being forgiven. GASB 65 required that the deferred amounts for refunding be broken out separately from bonds payable. This amount is found after the total assets in the table below.

SOUTH DAKOTA BOARD OF WATER AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

NET POSITION

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Current Assets	\$ 23,275,527	\$ 28,571,202	-18.5%
Noncurrent Assets	197,269,089	192,314,547	2.6%
Total Assets	<u>220,544,616</u>	<u>220,885,748</u>	-2%
Deferred Amount of Refunding	<u>2,777,204</u>		N/A
Total Deferred Outflow of Resources	<u>2,777,204</u>	<u>0</u>	N/A
Current Liabilities	5,817,914	5,480,818	6.2%
Noncurrent Liabilities	58,730,829	60,528,159	-3.0%
Total Liabilities	<u>64,548,743</u>	<u>66,008,977</u>	-2.2%
Net Position:			
Unrestricted	<u>158,773,077</u>	<u>154,876,772</u>	2.5%
Total Net Position	<u>\$ 158,773,077</u>	<u>\$ 154,876,772</u>	2.5%

SOUTH DAKOTA BOARD OF WATER AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CHANGES IN NET POSITION

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Loan Int. Income	\$ 3,418,373	\$ 3,392,330	0.8%
Other Income	909,108	929,189	-2.2%
Total Operating Revenue	<u>4,327,481</u>	<u>4,321,519</u>	<u>0.1%</u>
Administrative Expenses	965,935	836,926	15.4%
Grant Expenses	5,492,643	6,913,248	-20.5%
Interest Expense	2,306,726	2,435,826	-5.3%
Arbitrage	572,202	118,087	384.6%
Bond Issuance Expense**	0	28,217	-100%
Total Operating Expenses	<u>9,337,506</u>	<u>10,332,304</u>	<u>-9.6%</u>
Operating Income	(5,010,025)	(6,010,785)	-16.6%
Federal Cap Grants	6,021,835	9,380,251	-35.8%
Other Income	206,960	224,834	-7.9%
Investment Income	3,163,023	2,562,872	9.0%
Investment Expense	(14,837)	(5,245)	182.8%
Non Operating Rev (Exp)	<u>9,376,981</u>	<u>12,162,712</u>	<u>-22.9%</u>
Transfers	<u>(26,549)</u>	<u>(25,838)</u>	<u>2.8%</u>
Change in Net Position	4,340,407	6,126,089	29.1%
Beginning Net Position*	154,432,670	148,750,683	3.8%
Total Net Position	<u>\$ 158,773,077</u>	<u>\$ 154,876,772</u>	<u>2.5%</u>

*2014 was restated in accordance with GASB Statement 65

**As of FY14, GASB 65 no longer allows the amortizing of bond issuance costs.

SOUTH DAKOTA BOARD OF WATER AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

ECONOMIC OUTLOOK

The South Dakota economy has been in a recovery phase for nearly four years as increases in employment, income, and overall spending have been rebounding since early 2010. However, the pace of the recovery has been mixed, with employment growth being sluggish but income growth being stronger. Strength in the agriculture sector has supported income growth directly and indirectly as record farm income in recent years helped boost South Dakota's economy. State tax revenue for fiscal year 2014 increased 2.7% over last year.

The state is challenged demographically with a large number of small rural communities and only two cities with populations over 50,000 people. The Drinking Water State Revolving Fund Program assists the state in meeting these challenges and infrastructure needs. In state fiscal year 2014, the State of South Dakota obligated \$37.765 million dollars to 12 projects.

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2014**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 10,249,450.84
Investments	575,760.35
Due From Federal Government	249,309.64
Due From Other Governments	183,749.45
Accrued Interest Receivable	1,975,432.04
Loans Receivable	10,041,824.64
Total Current Assets	<u>23,275,526.96</u>

Noncurrent Assets:

Investments	61,563,556.26
Loans Receivable	135,705,532.03
Total Noncurrent Assets	<u>197,269,088.29</u>

Total Assets

220,544,615.25

Deferred Outflow of Resources

Deferred Charge on Refunding	2,777,204.00
Total Deferred Outflow of Resources	<u>2,777,204.00</u>

Liabilities

Current Liabilities:

Accounts Payable	146,536.77
Accrued Liabilities	15,570.30
Compensated Absences Payable	26,753.34
Accrued Interest Payable	894,489.01
Arbitrage Payable	147,498.53
Bonds Payable - net of unamortized premium	4,587,066.01
Total Current Liabilities	<u>5,817,913.96</u>

Noncurrent Liabilities:

Compensated Absences Payable	23,877.50
Arbitrage Payable	14,192.44
Bonds Payable - net of unamortized premium	58,692,758.81
Total Noncurrent Liabilities	<u>58,730,828.75</u>

Total Liabilities

64,548,742.71

Net Position

Unrestricted	<u>158,773,076.54</u>
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Total Net Position

\$ 158,773,076.54

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended June 30, 2014**

Operating Revenues:		
Loan Interest Income		\$ 3,418,373.05
Other Income		909,108.44
Total Operating Revenue		<u>4,327,481.49</u>
Operating Expenses:		
Administrative Expenses		
Personal Services	191,061.48	
Employee Benefits	62,471.52	
Travel	8,686.53	
Contractual	607,568.10	
Supplies	1,406.48	
Grants	94,326.14	
Other	<u>415.00</u>	
Total Administrative Expenses		965,935.25
Grant Expense		5,492,643.00
Interest Expense		2,306,725.91
Arbitrage Rebate		<u>572,202.09</u>
Total Operating Expenses		<u>9,337,506.25</u>
Operating Income (Loss)		(5,010,024.76)
Nonoperating Revenue (Expenses):		
Federal Capitalization Grants		6,021,835.10
Other Income		206,960.18
Investment Income		3,163,022.41
Investment Expense		<u>(14,836.97)</u>
Total Nonoperating Revenues (Expenses)		<u>9,376,980.72</u>
Income (Loss) Before Transfers		4,366,955.96
Transfers:		
Transfer Out		<u>(26,548.97)</u>
Change in Net Position		4,340,406.99
Net Position at Beginning of Year, restated		<u>154,432,669.55</u>
Net Position at End of Year		<u><u>\$ 158,773,076.54</u></u>

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014**

Cash Flows from Operating Activities:

Receipts for Loan Repayments	\$ 10,685,490.47	
Receipts for Interest Income on Loans	3,425,139.73	
Receipts for Surcharge Interest on Loans	913,780.47	
Arbitrage Payment	(528,598.49)	
Payments to Loan Recipients	(7,685,547.00)	
Payments for Employee Services	(244,855.72)	
Payments for Contractual Services	(619,949.14)	
Payment for Grants	(101,686.14)	
Payment for Principal Forgiveness	(5,492,643.00)	
Other Payments	<u>(10,308.20)</u>	
Net Cash Provided (Used) by Operating Activities		340,822.98

Cash Flows from Noncapital Financing Activities:

Transfers Out	(26,548.97)	
Principal Payments on Bonds	(4,380,000.00)	
Interest Payments on Bonds	(2,196,903.62)	
Receipts for Administering Program	6,000,330.00	
Other Income	<u>206,960.18</u>	
Net Cash Provided (Used) by Noncapital Financing Activities		(396,162.41)

Cash Flows from Investing Activities:

Interest on Investments	3,016,648.55	
Proceeds from Sale of Investment Securities	10,810,717.36	
Purchase of Investment Securities	<u>(19,440,152.38)</u>	
Net Cash Provided (Used) by Investing Activities		<u>(5,612,786.47)</u>

Net Increase (Decrease) in Cash and Cash Equivalents (5,668,125.90)

Cash and Cash Equivalents at Beginning of Year	<u>15,917,576.74</u>
Cash and Cash Equivalents at End of Year	<u>\$ 10,249,450.84</u>

Reconciliation of Operating Income to Net

Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (5,010,024.76)

Adjustments to Reconcile Net Income to Net Cash

Provided (Used) by Operating Activities:	
Interest Expense	2,306,725.91
Assets: (Increase)/Decrease	
Loans Receivable	2,999,943.47
Accrued Interest Receivable on Loans	6,766.68
Due from Other Governments	4,672.03
Liabilities: Increase/(Decrease)	
Accounts Payable	(19,541.23)
Accrued Employee Benefits	4,922.40
Accrued Liabilities	3,754.88
Arbitrage	<u>43,603.60</u>
Total Adjustments	<u>5,350,847.74</u>
Net Cash Provided by Operations	<u>\$ 340,822.98</u>

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authorizing Legislation

The Drinking Water State Revolving Fund (DWSRF) Loan Program was federally authorized by the Safe Drinking Water Act Amendments of 1996. The state authorized the loan program in 1994 in anticipation of federal action. The Environmental Protection Agency (EPA) developed final guidance for the Drinking Water State Revolving Fund on February 28, 1997. The Board of Water and Natural Resources, acting in its capacity as the South Dakota Conservancy District, conducted a public hearing on April 15, 1997 to adopt formal administrative rules for the program. The South Dakota Conservancy District (SDCD) was created by the Legislature under Chapter 46A-2 of the South Dakota Codified Law as a body politic and corporate for the purpose of constructing water resource facilities for the conservation, storage, distribution and utilization of water for municipal purposes within the State of South Dakota. The SDCD bonds do not constitute a debt of the State of South Dakota or a pledge of the faith and credit of the State. Because the State of South Dakota is able to impose its will over the SDCD and the governing body is substantively the same as the governing body of the primary government, it is considered a blended component unit and, as such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota. The Department of Environment and Natural Resources performs all of the functions of the South Dakota Conservancy District, except for quasi-legislative, quasi-judicial, advisory, and special budgetary functions, which are performed by the Board acting in its capacity as the Conservancy District. The DWSRF is a low interest loan program to finance drinking water projects. Funds are provided to the states in the form of capitalization grants awarded annually through the United States Environmental Protection Agency. The federal capitalization grants are matched by state funds at a ratio of 5:1.

B. Fund Accounting

The DWSRF is accounted for as an enterprise fund. An enterprise fund is a proprietary fund type used to report an activity for which a fee is charged to external users for goods or services.

C. Basis of Accounting

The DWSRF follows the accrual basis of accounting. This method of accounting recognizes the financial effect of transactions, events and interfund activities when they occur, regardless of the timing of related cash flows.

D. Cash and Cash Equivalents

For purposes of the accompanying statement of net position and statement of cash flows all highly liquid investments with original maturities of 90 days or less are considered to be cash equivalents.

E. Investments

Investments are reported at fair value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

F. Premium and Deferred Amount on Refunding

Premiums and the deferred amount on refunding on bonds are amortized using the straight line method over the life of the bonds to which they relate.

G. Revenue and Expense Recognition

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with an enterprise fund's principal ongoing operations. The DWSRF records all revenues derived from interest on loans as operating revenues since these revenues are generated from the DWSRF's daily operations needed to carry out its purpose. Operating expenses include grants and subsidies, and contractual service expenses related to the administration of the DWSRF program.

H. Federal Capitalization Grant

Federal capitalization grants reported as nonoperating income in the statement of revenues, expenses, and changes in fund net position is a federally funded loan program. Information about the program is as follows:

CFDA Number:	66.468
Federal Agency:	Environmental Protection Agency
Program:	Drinking Water State Revolving Fund
State Agency:	Environment & Natural Resources
Outstanding Loans:	\$145,747,357
Current Year	
Administrative Expense:	\$768,593
Loan Disbursement:	\$13,178,190

I. GASB 65

GASB 65 changed the way bond issuance costs are accounted for. They are no longer allowed to be amortized, but must be fully expensed when the bonds are issued. To adjust for bond issuance costs previously being amortized, the Beginning Net Position was restated by \$444,102.08. Also, GASB 65 required that deferred amount on refunding be reported as a deferred outflow of resources on the Statement of Net Position.

2. CASH AND INVESTMENTS

Cash and Cash Equivalents consisted of a Goldman Sachs Financial Square Treasury Obligation Fund (money market fund) and the South Dakota Cash Flow Fund. The Goldman Sachs Fund was rated "AAA" by Standard and Poor's Rating Group. The fund paid less than .01% for the period 7/01/2013– 6/30/2014. The South Dakota Conservancy District Investment Policy adopted pursuant to the Master Trust Indenture authorizes the

investment of up to 20 percent of funds in the South Dakota Cash Flow portfolio which is an unrated fund. The fund paid .99% for state fiscal year 2014.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the audit report of the South Dakota Investment Council, which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Drinking Water State Revolving Fund's investments may not be returned. At June 30, 2014, \$56,444,335 of guaranteed investment contracts was uninsured and unregistered, with the securities held by its trust department, but not in the DWSRF's name and, as a result, were exposed to custodial credit risk. Also, investments were made in US Treasury Bonds with a market value of \$2,915,182 and in Federal Agency Bonds with a market value of \$2,777,792 were exposed to custodial credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The maturities of the investments are listed below.

Investment	Maturities	Fair Value
Guaranteed Investment Contract	8/01/2025	\$ 44,949,661
Guaranteed Investment Contract	8/01/2026	11,494,674
		<u>\$ 56,444,335</u>
US Treasury Bonds	2/28/2015	\$ 502,484
US Treasury Bonds	5/31/2015	71,269
US Treasury Bonds	8/31/2015	374,740
US Treasury Bonds	11/30/2015	965,362
US Treasury Bonds	8/31/2016	479,897
US Treasury Bonds	5/31/2017	521,430
		<u>\$ 2,915,182</u>
Federal Agency Bonds	3/30/2016	\$ 475,822
Federal Agency Bonds	9/28/2016	253,547
Federal Agency Bonds	4/27/2017	528,276
Federal Agency Bonds	6/29/2017	225,396
Federal Agency Bonds	8/28/2017	144,392
Federal Agency Bonds	10/26/2017	149,051
Federal Agency Bonds	12/20/2017	396,004
Federal Agency Bonds	3/07/2018	369,694
Federal Agency Bonds	5/21/2018	235,610
		<u>\$ 2,777,792</u>

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the DWSRF. The South Dakota State Revolving Fund Master Trust Indenture requires any investment agreement to be with a guarantor whose long-term rating category is no lower than the two highest long-term rating categories. The investment is rated by Moody's Investors Service. The ratings for Guaranteed Investment Contracts are as follows:

<u>Moody's Rating</u>	<u>Fair Value</u>
Baa1	<u>\$ 56,444,335</u>

This guarantor's rating is below the acceptable rating category (i.e., below Moody's Aa3). This investment has been fully collateralized with government securities in accordance with the provisions of Guaranteed Investment Contracts. These fully collateralized investments have a fair value that equates to contract value.

Excluding investments explicitly guaranteed by the U.S. Government which are not considered to have credit risk, the CWSRF held Federal Agency Bonds with a fair value of \$2,777,792 which were rated Aaa by Moody's Investor Services.

3. LOANS RECEIVABLE

Loans receivable consist of loans made to local governments through a loan agreement. In order for a local government to receive a loan, evidence must be shown that the principal and interest of the loan will be repaid. Loans made from the DWSRF may be made at or below market interest rates and shall be fully amortized within twenty years, unless the loan is to a Disadvantaged Community, in which case the loan must be amortized within 30 years. Interest rates are reduced for those loans with shorter amortization periods.

4. LONG-TERM DEBT

Revenue Bonds

The bond issues outstanding as of June 30, 2014 are as follows:

Issue	Interest Rate	Maturity Through	Principal Balance
Series 2010AB			
Build America Bonds (BABs) Leveraged Term Bonds	4.084% - 5.646%	2031	\$ 12,665,000
Tax Exempt Bonds			
Leveraged Term Bonds	2.000% - 5.125%	2030	13,435,000
State Match Term Bonds	2.000% - 5.125%	2030	5,795,000
Series 2012AB			
Taxable Revenue Bonds			
State Match	0.250% - 3.183%	2027	5,070,000
Leveraged	0.250% - 3.183%	2027	22,345,000
Revenue Bonds			
State Match	2.000% - 5.000%	2023	2,180,000
Total			61,490,000
Add: Unamortized Premium			1,789,824
Total Net of Amortization			\$ 63,279,824

Future bond payments and future interest payments remaining as of June 30, 2014 are as follows:

Year Ended June 30,	Principal	Interest	Total Principal and Interest
2015	\$ 4,475,000	\$ 2,088,284	\$ 6,563,284
2016	4,575,000	1,969,107	6,544,107
2017	4,685,000	1,844,186	6,529,186
2018	4,825,000	1,707,348	6,532,348
2019	4,985,000	1,561,235	6,546,235
2020-2024	21,155,000	5,790,409	26,945,409
2025-2029	13,505,000	2,383,084	15,888,084
2030-2033	3,285,000	138,317	3,423,317
TOTAL	\$ 61,490,000	\$ 17,481,970	\$ 78,971,970

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 65,870,000	\$ 0	\$ (4,380,000)	\$ 61,490,000	\$ 4,475,000
Add: Bond Premium	1,901,890		(112,06)	1,789,824	112,066
Total	67,771,890	0	(4,492,066)	63,279,824	4,587,066
Compensated Absences	45,708	16,569	(11,646)	50,631	26,753
Long-Term Liabilities	\$ 67,817,598	\$ 16,569	\$ (4,503,712)	\$ 63,330,455	\$ 4,613,819

5. COMMITMENTS

As of June 30, 2014, the DWSRF had loan commitments with political subdivisions worth \$23,906,467.

6. RETIREMENT PLAN

The Department of Environment and Natural Resources participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan 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 is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The DWSRF contributions to the SDRS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$12,834.14, \$11,824.35, and \$12,102.65, respectively, equal to the required contributions each year.

7. ANNUAL AND SICK LEAVE ACCRUAL

All employees earn annual leave. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2014, a liability existed for accumulated annual leave calculated at the employee's June 30, 2014 pay rate in the amount of \$22,279. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one-fourth of their accumulated sick leave balance. This payment is not to exceed the sum of twelve weeks of employee's annual compensation. At June 30, 2014, a liability existed for accumulated sick leave, calculated at each employee's June 30, 2014, pay rate in the amount of \$28,351. The total leave liability of \$50,631 at June 30, 2014 is shown as a liability on the balance sheet.

8. RISK MANAGEMENT

The Department of Environment and Natural Resources is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is uninsured for property loss. The Department participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include; 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, 2) coverage of employee medical claims through the State's health insurance program, 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, and, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

9. SUBSEQUENT EVENTS

In October 2014, the South Dakota Conservancy District issued its State Revolving Fund Program Bonds, Series 2014 consisting of \$9,060,000 principal amount of Taxable Revenue Bonds, Series 2014A and \$50,775,000 principal amount Revenue Bonds, Series 2014B. The following is a summary of the estimated sources and uses of Series 2014 Bonds:

<u>Sources:</u>	Series 2014A (Taxable)	Series 2014B (Tax-Exempt)	Totals
Bond Proceeds (Par)	\$ 9,060,000	\$ 50,755,000	\$ 59,815,000
Premium		9,601,865	9,601,865
Total Sources of Funds	<u>\$ 9,060,000</u>	<u>\$ 60,356,865</u>	<u>\$ 69,416,865</u>
 <u>Uses:</u>			
Deposit to Clean Water State Match Loan Fund	\$ 4,000,000	\$	\$ 4,000,000
Deposit to Clean Water Leveraged Loan Fund		53,000,000	53,000,000
Deposit to Drinking Water State Match Loan Fund	5,000,000		5,000,000
Deposit to Drinking Water Leveraged Loan Fund		7,000,000	7,000,000
Cost of Issuance	60,000	356,865	416,865
Total Uses of Funds	<u>\$ 9,060,000</u>	<u>\$ 60,356,865</u>	<u>\$ 69,416,865</u>

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