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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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Dept. of Environment and
Natural Resources
Secretary's Office

October 30, 2015

Steve Pirner, Secretary
Department of Environment and Natural Resources
Foss Building
Pierre, South Dakota 57501

Dear Mr. Pirner:

We have completed our audit of the financial statements for the South Dakota Board of Water and Natural Resources Clean Water State Revolving Fund for the year ending June 30, 2015.

Enclosed are five copies of the report. If we can be of further service to you, please contact us.

Sincerely,

Martin L. Guindon, CPA
Auditor General

MLG:cbh

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

AUDIT REPORT

Fiscal Year Ended June 30, 2015



**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
CLEAN WATER STATE REVOLVING FUND
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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 Clean Water State Revolving Fund, which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in fund net position, and cash flows for the year ended, and the related notes to the financial statements, which collectively comprise the Clean Water State Revolving Fund's basic financial statements, and have issued our report thereon dated October 23, 2015.

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.

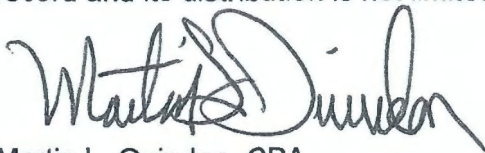
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Clean Water State Revolving Fund's 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

October 23, 2015



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AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Dugaard
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 Clean 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, 2015, and the related notes to the financial statements, which collectively comprise the Clean 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 Clean Water State Revolving Fund as of June 30, 2015, 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.

Implementation of New Accounting Standards

As described in Note 1.K. to the financial statements, the Board of Water and Natural Resources implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. As discussed in Note 1.K. to the financial statements, the implementation of these standards resulted in a restatement of beginning net position. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As described in Note 1, the financial statements present only the financial position and changes in financial position and cash flows of the Clean 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, 2015, and the changes in its financial position and its cash flows, where applicable, for the fiscal year then ended in conformity 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

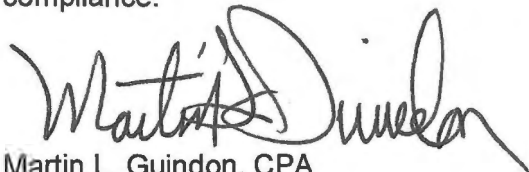
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

Management has omitted the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Pension Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015 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

October 23, 2015

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Dakota Department of Environment and Natural Resources Clean 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, 2015. 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.

DEBT ADMINISTRATION

The Clean Water Fund is authorized to issue revenue bonds for the purpose of financing loans and other types of financial assistance to qualified communities or local agencies for clean water projects.

In October 2014, the 2014A and B Series bonds were issued in the amount of \$48,860,000 to be used as noted in the paragraph above.

The Fund's bonds are rated AAA with a positive outlook by Standard and Poor's and Aaa by Moody's Investor Service.

More detailed information about the Authority's debt can be found in Note 4, Long-Term Debt.

**ANALYSIS OF BALANCES AND TRANSACTIONS OF THE CLEAN WATER STATE
REVOLVING FUND**

Changes in Assets and Liabilities

Due to the bond issue noted above, cash and investments increased by \$57,202,586. Also, due to the bond issue, bonds payable went up by \$48,860,000 along with a premium of \$8,482,129.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Position

For the fiscal year ended June 30, 2015, net position of the Fund increased by 4.1% - primarily due to total revenues for the fund exceeding total expenses by \$8,563,126. The federal capitalization grants received totaling \$7 million and investment income of \$3.9 million represented the primary reason for the change. Additionally, operating revenue totaled more than \$6.8 million which was an increase of nearly 14% from the previous year, primarily related to additional loan interest income, while operating expenses went down

by more than 2%. GASB Statement 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. GASB Statements 68 & 71 required that pensions be reported in the financial statements. Those amounts are reflected in the Deferred Outflows and Inflows shown in the table below.

NET POSITION			
	2015	2014	% Change
Current Assets	\$ 71,295,785	\$ 39,895,763	78.7%
Noncurrent Assets	340,071,630	312,902,430	8.7%
Total Assets	411,367,415	352,798,193	16.6%
Related to Pensions	84,489	0	100.0%
Deferred Amount of Refunding	3,590,358	3,964,749	-9.4%
Total Deferred Outflow of Resources	3,674,847	3,964,749	90.6%
Current Liabilities	13,993,852	10,904,103	28.3%
Noncurrent Liabilities	182,858,377	136,348,558	34.1%
Total Liabilities	196,852,229	147,252,661	33.7%
Related to Pensions	107,701	0	100.0%
Total Deferred Inflow of Resources	107,701	0	100.0%
Net Position:			
Restricted For Pension Benefits	69,781	0	100.0%
Restricted For Debt Service	98,733	98,749	0%
Unrestricted	217,913,818	209,411,531	4.1%
Total Net Position	\$ 218,082,332	\$ 209,510,280	4.1%

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

CHANGES IN NET POSITION

	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Loan Interest Income	\$ 5,413,738	\$ 4,687,315	15.5%
Other Income	1,441,729	1,331,579	8.3%
Total Operating Revenue	<u>6,855,467</u>	<u>6,018,894</u>	<u>13.9%</u>
Administrative Expenses	1,666,739	1,441,428	15.6%
Grant Expenses	1,286,271	2,468,382	-47.9%
Interest Expense	6,196,158	5,186,694	19.5%
Arbitrage	188,125	766,316	-75.5%
Bond Issuance Expense	318,180	0	100.0%
Total Operating Expenses	<u>9,655,473</u>	<u>9,862,820</u>	<u>-2.1%</u>
Operating Income (Loss)	(2,800,006)	(3,843,926)	27.2%
Federal Capitalization Grants	7,034,489	15,144,209	-53.5%
Other Income	428,609	425,375	0.8%
Investment Income	3,916,250	4,005,146	-2.2%
Investment Expense	(16,216)	(16,757)	-3.2%
Non Operating Rev (Exp)	<u>11,363,132</u>	<u>19,557,973</u>	<u>-41.9%</u>
Transfers Out	<u>(41,009)</u>	<u>(31,963)</u>	<u>28.3%</u>
Change in Net Position	8,522,117	15,682,084	-45.7%
Beginning Net Position *	<u>209,560,215</u>	<u>193,828,196</u>	<u>8.1%</u>
Total Net Position	<u>\$ 218,082,332</u>	<u>\$ 209,510,280</u>	<u>4.1%</u>

*2015 was restated in accordance with GASB Statement 68 & 71

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CURRENT CONDITIONS

The state is challenged demographically with a large number of small rural communities and only two cities with populations over 50,000 people. The Clean Water State Revolving Fund Program assists the state in meeting these challenges and infrastructure needs. In state fiscal year 2015, the Clean Water State Revolving Fund obligated \$56.7 million to 28 projects.

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2015**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 29,600,951.14
Restricted Cash and Cash Equivalents	<u>2,961.93</u>
Total Cash and Cash Equivalents	29,603,913.07
Investments	17,019,981.00
Due From Federal Governments	111,587.72
Due from Other Governments	285,043.45
Accrued Interest Receivable	2,729,632.11
Loans Receivable	<u>21,545,627.99</u>
Total Current Assets	<u>71,295,785.34</u>

Noncurrent Assets:

Investments	105,214,117.98
Restricted Investments	95,770.84
Restricted Net Pension Asset	92,993.00
Loans Receivable	<u>234,668,747.72</u>
Total Noncurrent Assets	<u>340,071,629.54</u>

Total Assets

411,367,414.88

Deferred Outflows of Resources

Related to Pensions	84,489.00
Deferred Charge on Refunding	<u>3,590,358.43</u>
Total Deferred Outflows of Resources	<u>3,674,847.43</u>

Liabilities

Current Liabilities:

Accounts Payable	222,397.62
Accrued Liabilities	21,441.21
Compensated Absences Payable	36,681.83
Accrued Interest Payable	3,043,516.37
Arbitrage Payable	407,345.19
Bonds Payable - net of unamortized premium and discount	<u>10,262,470.42</u>
Total Current Liabilities	<u>13,993,852.64</u>

Noncurrent Liabilities:

Compensated Absences Payable	32,568.36
Bonds Payable - net of unamortized premium and discount	<u>182,825,808.32</u>
Total Noncurrent Liabilities	<u>182,858,376.68</u>

Total Liabilities

196,852,229.32

Deferred Inflows of Resources

Related to Pensions	<u>107,701.00</u>
Total Deferred Inflows of Resources	<u>107,701.00</u>

Net Position

Restricted For Debt Service	98,732.77
Restricted For Pension Benefits	69,781.00
Unrestricted	<u>217,913,818.22</u>
Total Net Position	<u>\$ 218,082,331.99</u>

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended June 30, 2015**

Operating Revenues:		
Loan Interest Income		\$ 5,413,738.52
Other Income		1,441,728.59
Total Operating Revenue		<u>6,855,467.11</u>
 Operating Expenses:		
Administrative Expenses		
Personal Services	266,872.61	
Employee Benefits	55,154.56	
Travel	11,706.64	
Contractual	369,654.14	
Supplies	1,146.36	
Grants	961,463.21	
Other	741.78	
Total Administrative Expenses		1,666,739.30
Grant Expense		1,286,271.00
Bond Issuance Expense		318,180.32
Interest Expense		6,196,157.89
Arbitrage Rebate		188,124.68
Total Operating Expenses		<u>9,655,473.19</u>
Operating Income (Loss)		(2,800,006.08)
 Nonoperating Revenues (Expenses):		
Federal Capitalization Grants		7,034,489.07
Other Income		428,609.35
Investment Income		3,916,249.72
Investment Expense		(16,216.25)
Total Nonoperating Revenues (Expenses)		<u>11,363,131.89</u>
Income (Loss) Before Transfers		8,563,125.81
 Transfers:		
Transfer Out		<u>(41,009.27)</u>
Change in Net Position		8,522,116.54
Net Position at Beginning of Year, restated		<u>209,560,215.45</u>
Net Position at End of Year		<u><u>\$ 218,082,331.99</u></u>

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2015**

Cash Flows from Operating Activities:		
Receipts for Loan Repayments	\$ 19,937,002.48	
Receipts for Interest Income on Loans	5,853,195.87	
Receipts for Surcharge Interest on Loans	1,547,561.37	
Payments to Loan Recipients	(25,123,923.00)	
Arbitrage Payment	(336,380.89)	
Payments for Employee Services	(340,835.88)	
Payments for Contractual Services	(333,651.65)	
Payments for Grants	(984,474.85)	
Payments for Principal Forgiveness	(1,286,271.00)	
Other Payments	(14,632.43)	
Net Cash Provided (Used) by Operating Activities		(1,082,409.98)
Cash Flows from Noncapital Financing Activities:		
Transfers Out	(41,009.27)	
Principal Payments on Bonds	(7,580,000.00)	
Interest Payments on Bonds	(5,845,134.60)	
Bond Issuance Expense	(318,180.32)	
Bond Proceeds	57,342,129.21	
Receipts for Administering Program	6,985,899.00	
Other Income	428,609.35	
Net Cash Provided (Used) by Noncapital Financing Activities		50,972,313.37
Cash Flows from Investing Activities:		
Interest on Investments	3,782,850.84	
Proceeds from Sale of Investment Securities	17,181,484.77	
Purchase of Investment Securities	(52,286,357.99)	
Net Cash Provided (Used) by Investing Activities		(31,322,022.38)
Net Increase (Decrease) in Cash and Cash Equivalents		18,567,881.01
Cash and Cash Equivalents at Beginning of Year		11,036,032.06
Cash and Cash Equivalents at End of Year		<u>\$ 29,603,913.07</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		\$ (2,800,006.08)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Interest Expense	6,196,157.89	
Bond Issuance Cost	318,180.32	
Assets: (Increase)/Decrease		
Loans Receivable	(5,186,920.52)	
Accrued Interest Receivable on Loans	439,457.35	
Due from Other Governments	109,760.78	
Pension Assets	(56,601.00)	
Deferred Outflows of Resources: (Increase)/Decrease		
Deferred Outflows of Resources - Related to Pensions	(70,946.00)	
Liabilities: Increase/(Decrease)		
Accounts Payable	11,953.20	
Accrued Employee Benefits	(3,515.25)	
Accrued Liabilities	624.54	
Arbitrage	(148,256.21)	
Deferred Inflows of Resources: Increase/(Decrease)		
Deferred Inflows of Resources - Related to Pensions	107,701.00	
Total Adjustments		1,717,596.10
Net Cash Provided by Operations		<u>\$ (1,082,409.98)</u>

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authorizing Legislation

The 1988 South Dakota Legislature authorized the State Water Pollution Control Revolving Loan Fund Program, also known as the Clean Water State Revolving Fund (CWSRF) Loan Program. Additionally, the legislature appropriated \$1,200,000 and directed the South Dakota Conservancy District (SDCD) to administer the program. The 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 of Water and Natural Resources acting in its capacity as the Conservancy District. The CWSRF is a low interest loan program to finance the construction of wastewater facilities, storm sewers and non-point source pollution control projects. The program was created by the 1987 Clean Water Act amendments. 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 CWSRF 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 CWSRF 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. Premiums and Deferred Amounts on Refunding

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

G. Reserves

The bond indentures provide that certain reserve accounts be established. The reserves as of June 30, 2015, consist of the following Investment Agreement and are reported as restricted net position in the financial statements:

- 6.22% MBIA Inc. due August 1, 2017 totaling \$95,770.84

In addition, \$2,961.93 is invested in a Money Market Fund described in note 2 below.

H. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the CWSRF's policy to use restricted resources first, and then unrestricted resources as they are needed.

I. 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 CWSRF records all revenues derived from interest on loans as operating revenues since these revenues are generated from the CWSRF'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 CWSRF program.

J. 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:	66.458
Federal Agency:	Environmental Protection Agency
Program:	Clean Water State Revolving Fund
State Agency:	Environment & Natural Resources
Outstanding Loans:	\$256,214,376
Current Year	
Administrative Expense:	\$428,053
Loan Disbursement:	\$26,410,194

K. Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and in November 2013 GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. The requirements of this statement are effective for financial statements for fiscal years beginning after June 15, 2014. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions.

Accounting changes adopted to conform to the provisions of this Statement were applied retroactively by restating financial statements for all periods presented. For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Clean Water SRF contributions and net pension asset are recognized on an accrual basis of accounting.

Net position June 30, 2014, as previously reported	\$209,510,280.45
Restatement for pension accounting:	
Net pension asset	36,392.00
Pension related deferred outflows of resources	<u>13,543.00</u>
Net position July 1, 2014, as restated	<u>\$209,560,215.45</u>

L. Restricted Net Position

In addition to the restricted net position discussed in Note 1.G, the net position associated with reporting the CWSRF's collective share of the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions as discussed in note 6 was reported as restricted net position as the assets have externally imposed constraints placed on them by the SDRS.

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 "AAAm" by Standard and Poor's Rating Group. The fund paid less than .01% for the period 7/01/2014– 6/30/2015. 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 1.25% for state fiscal year 2015.

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 Clean Water State Revolving Fund's investments may not be returned. At June 30, 2015, \$82,018,371 of guaranteed investment contracts were uninsured and unregistered, with the securities held by its trust department, but not in the CWSRF'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 \$39,113,009 and in Federal Agency Bonds with a market value of \$1,198,490 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.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Guaranteed Investment Contract	8/01/2017	\$ 1,236,195
Guaranteed Investment Contract	8/01/2025	15,486,737
Guaranteed Investment Contract	8/01/2026	65,295,439
		<u>\$ 82,018,371</u>
US Treasury Bonds	12/31/2015	\$ 4,802,448
US Treasury Bonds	1/31/2016	1,001,370
US Treasury Bonds	3/31/2016	4,554,459
US Treasury Bonds	9/30/2016	7,008,190
US Treasury Bonds	11/30/2015	1,010,337
US Treasury Bonds	12/31/2016	2,816,072
US Treasury Bonds	3/31/2017	6,699,875
US Treasury Bonds	6/30/2017	4,558,554
US Treasury Bonds	6/30/2016	6,661,704
		<u>\$ 39,113,009</u>
Federal Agency Bonds	8/28/2017	\$ 500,800
Federal Agency Bonds	3/07/2018	697,690
		<u>\$ 1,198,490</u>

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the CWSRF. 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>
Ba1/A-*	\$ 1,236,195
Baa1*	80,782,176
Total	<u>\$ 82,018,371</u>

* These guarantor's ratings are below the acceptable rating category (i.e., below Moody's Aa3). The Guaranteed Investment Contract investments have 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 \$1,198,490 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. Therefore, each local government must show the ability to impose utility rates, levy special assessments or collect sales taxes that will generate enough revenue to equal at least 110% of the annual principal and interest on the loan. Loans made from the CWSRF may be made at or below market interest rates and shall be fully amortized within twenty years of the date which is not more than one year following completion of the project financed. Interest rates are reduced for those loans shorter than twenty years. Of the \$256,214,376 loan receivable balance, \$21,473,042 is a long term receivable balance and \$802,796 is a short term receivable balance for the Ellsworth Development Authority which is a component unit of the State of South Dakota.

4. LONG-TERM DEBT

Revenue Bonds

The bond issues outstanding as of June 30, 2015 are as follows:

Issue	Interest Rate	Maturity Through	Principal Balance
Series 1996 A Term Bonds	5.625%	2017	\$ 100,000
Series 2010AB Build America Bonds (BABs)			
State Match	4.084% - 5.646%	2031	2,430,000
Leveraged	4.084% - 5.646%	2031	23,600,000
Tax Exempt Bonds			
State Match	4.084% - 5.646%	2030	1,945,000
Leveraged	4.084% - 5.646%	2030	19,365,000
Series 2012AB Taxable Revenue Bonds			
State Match	0.250% - 3.183%	2027	1,830,000
Leveraged	0.250% - 3.183%	2027	30,720,000
Revenue Bonds			
State Match	2.000% - 5.000%	2030	2,900,000
Leveraged	2.000% - 5.000%	2033	43,750,000
Series 2014A Taxable Revenue Bonds			
State Match	0.300% - 1.920%	2020	4,025,000
Series 2014B Revenue Bonds			
Leveraged	2.000% - 5.000%	2035	44,835,000
Total			<u>175,500,000</u>
Add: Unamortized Bond Premium			17,588,279
Total Net of Amortization			<u>\$ 193,088,279</u>

Future bond payments and future interest payments remaining as of June 30, 2015 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>
2016	\$ 9,290,000	\$ 7,187,474	\$ 16,477,474
2017	9,875,000	6,931,715	16,806,715
2018	10,125,000	6,641,521	16,766,521
2019	10,255,000	6,310,049	16,565,049
2020	9,585,000	5,972,233	15,557,233
2021-2025	51,135,000	24,124,702	75,259,702
2026-2030	47,650,000	12,411,686	60,061,686
2031-2035	27,585,000	2,859,925	30,444,925
TOTAL	\$ 175,500,000	\$ 72,439,305	\$ 247,939,305

Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 134,220,000	\$ 48,860,000	\$ (7,580,000)	\$ 175,500,000	\$ 9,290,000
Add: Bond Premium	9,947,321	8,482,129	(841,171)	17,588,279	972,470
Total	144,167,321	57,342,129	(8,421,171)	193,088,279	10,262,470
Compensated Absences	72,765	22,118	(25,633)	69,250	36,682
Long-Term Liabilities	\$ 144,240,086	\$ 57,364,247	\$ (8,446,804)	\$ 193,157,529	\$ 10,299,152

5. COMMITMENTS

As of June 30, 2015, the CWSRF had loan commitments with political subdivisions worth \$38,470,783.

6. PENSION PLAN

The Department of Environment and Natural Resources, (DENR), 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 contacting the SDRS in writing at South Dakota Retirement System, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731. Additionally, the State of South Dakota's Comprehensive Annual Financial Report (CAFR) will report the State's proportionate share of the plan. The CAFR can be obtained by writing to the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501 or by calling (605)773-3595.

State law requires employees to contribute 6 percent of their salary to the plan and 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. DENR contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$18,378.31, \$15,460.85, and \$13,751.34, respectively, equal to the required contributions each year.

At June 30, 2015, SDRS is 107% funded and accordingly has a net pension asset. At June 30, 2015, DENR reported an asset of \$92,993 for its proportionate share of the net pension asset. For the fiscal year ended June 30, 2015, pension revenue of \$3,928 was recorded. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,868	\$ -
Changes in assumption	60,703	-
Net difference between projected and actual earnings on pension plan investments	-	107,701
Contributions after the measurement date	15,918	-
Total	<u>\$ 84,489</u>	<u>\$ 107,701</u>

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, 2015, a liability existed for accumulated annual leave calculated at the employee's June 30, 2015 pay rate in the amount of \$30,495.86. 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, 2015, a liability existed for accumulated sick leave, calculated at each employee's June 30, 2015 pay rate in the amount of \$38,754.33. The total leave liability of \$69,250.19 at June 30, 2015 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.

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