

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

AUDIT REPORT

Fiscal Year Ended June 30, 2017



**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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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 Clean Water State Revolving Fund, which comprise the statement of net position as of June 30, 2017, 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 Clean Water State Revolving Fund's basic financial statements, and have issued our report thereon dated October 6, 2017.

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 a 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.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with a large initial "M" and "G".

Martin L. Guindon, CPA
Auditor General

October 6, 2017



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MARTIN L. GUINDON, CPA
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 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, 2017, 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, 2017, 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.

Emphasis of Matter

As described in Note 1, the financial statements present only the Clean Water State Revolving Fund and do not purport to, and do not, present fairly the financial position of the Board of Water and Natural Resources as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows 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 5-7 and the Schedules of Proportionate Share of the Net Pension Liability (Asset) and Employer Contributions on pages 20-21 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 October 6, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the South Dakota Board of Water and Natural Resources' 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 6, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Dakota Board of Water 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, 2017. 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.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Changes in Net Position

For the fiscal year ended June 30, 2017, net position of the Fund increased by \$7,813,943 (3.5%). This increase is larger than the 2.2% increase in FY16 and is primarily the result of federal capitalization receipts. The federal capitalization receipts for the year were \$5,912,491 an increase of 278% from the prior year. However expenses were also up in FY17, especially in grants, and with the rest of the revenue holding fairly steady, it allowed for revenue in FY17 to be higher than expenses, resulting in the 3.5% increase.

NET POSITION			
	2017	2016	% Change
Current Assets	\$ 59,223,033	\$ 91,589,831	-35.4%
Noncurrent Assets	344,286,547	314,085,079	9.6%
Total Assets	403,509,580	405,674,910	-0.5%
Related to Pensions	112,264	114,983	-2.4%
Deferred Amount of Refunding	2,841,578	3,215,968	-11.6%
Total Deferred Outflows of Resources	2,953,842	3,330,951	-11.3%
Current Liabilities	14,851,223	14,065,550	5.9%
Noncurrent Liabilities	160,959,175	172,010,250	-6.4%
Total Liabilities	175,810,398	186,075,800	-5.5%
Related to Pensions	768	91,749	-99.2%
Total Deferred Inflows of Resources	768	91,749	-99.2%
Net Position:			
Restricted For Pension Benefits	64,608	84,875	-23.9%
Restricted For Debt Service	98,788	98,718	0.1%
Unrestricted	230,488,860	222,654,720	3.5%
Total Net Position	\$ 230,652,256	\$ 222,838,313	3.5%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>	<u>% Change</u>
Loan Interest Income	\$ 5,535,708	\$ 5,487,876	0.9%
Other Income	1,427,678	1,409,941	1.3%
Total Operating Revenue	<u>6,963,386</u>	<u>6,897,817</u>	<u>1.0%</u>
Administrative Expenses	2,854,178	1,300,686	119.4%
Grant Expenses	559,050	365,624	52.9%
Interest Expense	6,222,662	6,489,579	-4.1%
Total Operating Expenses	<u>9,635,890</u>	<u>8,155,889</u>	<u>18.2%</u>
Operating Income (Loss)	(2,672,504)	(1,258,072)	-112.4%
Federal Capitalization Grants	5,912,491	1,564,264	278.0%
Other Income	430,457	429,534	0.2%
Investment Income	4,182,799	4,194,447	-0.3%
Investment Expense	(1,890)	(2,328)	-18.8%
Arbitrage	(0)	(131,881)	-100.0%
Payments to State	(37,410)	(39,983)	-6.4%
Non-Operating Rev (Exp)	<u>10,486,447</u>	<u>6,014,053</u>	<u>74.4%</u>
Change in Net Position	7,813,943	4,755,981	64.3%
Beginning Net Position	<u>222,838,313</u>	<u>218,082,332</u>	<u>2.2%</u>
Total Net Position	<u>\$ 230,652,256</u>	<u>\$ 222,838,313</u>	<u>3.5%</u>

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 2017, the Clean Water State Revolving Fund obligated \$54.8 million to 24 projects.

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2017**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 21,662,692.27
Restricted Cash and Cash Equivalents	3,016.92
Total Cash and Cash Equivalents	<u>21,665,709.19</u>

Investments	14,709,277.51
Restricted Investments	95,770.84
Due from Federal Governments	125,881.69
Due from Other Governments	343,045.63
Accrued Interest Receivable	2,991,579.06
Loans Receivable	19,291,769.05
Total Current Assets	<u>59,223,032.97</u>

Noncurrent Assets:

Investments	102,433,138.11
Loans Receivable	241,853,408.63
Total Noncurrent Assets	<u>344,286,546.74</u>

Total Assets	<u>403,509,579.71</u>
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Deferred Outflows of Resources

Related to Pensions	112,264.00
Deferred Charge on Refunding	2,841,578.27
Total Deferred Outflows of Resources	<u>2,953,842.27</u>

Liabilities

Current Liabilities:

Accounts Payable	863,449.93
Accrued Liabilities	21,888.06
Compensated Absences Payable	35,687.02
Accrued Interest Payable	2,832,727.90
Bonds Payable - net of unamortized premium and discount	11,097,470.42
Total Current Liabilities	<u>14,851,223.33</u>

Noncurrent Liabilities:

Net Pension Liability	46,888.00
Compensated Absences Payable	31,419.08
Bonds Payable - net of unamortized premium and discount	160,880,867.48
Total Noncurrent Liabilities	<u>160,959,174.56</u>

Total Liabilities	<u>175,810,397.89</u>
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Deferred Inflows of Resources

Related to Pensions	768.00
Total Deferred Inflows of Resources	<u>768.00</u>

Net Position

Restricted For Debt Service	98,787.76
Restricted For Pension Obligations	64,608.00
Unrestricted	230,488,860.33
	<u>230,488,860.33</u>

Total Net Position	<u>\$ 230,652,256.09</u>
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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, 2017**

Operating Revenues:		
Loan Interest Income		\$ 5,535,707.50
Other Income		1,427,678.16
Total Operating Revenues		<u>6,963,385.66</u>
 Operating Expenses:		
Administrative Expenses		
Personal Services	275,010.99	
Employee Benefits	92,207.11	
Travel	9,359.18	
Contractual	430,697.07	
Supplies	83.48	
Grants	2,046,751.91	
Other	<u>68.42</u>	
Total Administrative Expenses		2,854,178.16
Grant Expense		559,050.00
Interest Expense		6,222,661.40
Total Operating Expenses		<u>9,635,889.56</u>
Operating Income (Loss)		(2,672,503.90)
 Nonoperating Revenues (Expenses):		
Federal Capitalization Grants		5,912,490.82
Other Income		430,457.82
Investment Income		4,182,799.17
Investment Expense		(1,890.27)
Payments to State		(37,410.28)
Total Nonoperating Revenues (Expenses)		<u>10,486,447.26</u>
Change in Net Position		7,813,943.36
Net Position at Beginning of Year		<u>222,838,312.73</u>
Net Position at End of Year		<u>\$ 230,652,256.09</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, 2017**

Cash Flows from Operating Activities:		
Receipts for Loan Repayments	\$ 22,669,561.81	
Receipts for Interest Income on Loans	5,419,566.76	
Receipts for Surcharge Interest on Loans	1,357,930.00	
Payments to Loan Recipients	(34,370,693.00)	
Payments for Principal Forgiveness	(559,050.00)	
Payments for Employee Services	(345,736.59)	
Payments for Contractual Services	(392,923.70)	
Payments for Grants	(1,439,845.03)	
Other Payments	(9,251.19)	
Net Cash Provided (Used) by Operating Activities	<u>(9,251.19)</u>	(7,670,440.94)
Cash Flows from Noncapital Financing Activities:		
Payments to State	(37,410.28)	
Principal Payments on Bonds	(9,875,000.00)	
Interest Payments on Bonds	(6,931,715.62)	
Receipts for Administering Program	5,902,501.00	
Other Income	430,457.82	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>430,457.82</u>	(10,511,167.08)
Cash Flows from Investing Activities:		
Interest on Investments	4,091,994.97	
Proceeds from Sale of Investment Securities	36,709,634.68	
Purchase of Investment Securities	(42,022,049.30)	
Net Cash Provided (Used) by Investing Activities	<u>(42,022,049.30)</u>	(1,220,419.65)
Net Increase (Decrease) in Cash and Cash Equivalents		(19,402,027.67)
Cash and Cash Equivalents at Beginning of Year		<u>41,067,736.86</u>
Cash and Cash Equivalents at End of Year		<u>\$ 21,665,709.19</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		\$ (2,672,503.90)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Interest Expense	6,222,661.40	
Assets: (Increase)/Decrease		
Loans Receivable	(11,701,131.19)	
Accrued Interest Receivable on Loans	(116,140.74)	
Due from Other Governments	(69,748.16)	
Net Pension Asset	61,641.00	
Decrease/(Increase) in Deferred Outflows of Resources:		
Deferred Outflows of Resources - Related to Pensions	2,719.00	
Liabilities: Increase/(Decrease)		
Accounts Payable	644,940.14	
Accrued Employee Benefits	(1,096.79)	
Accrued Liabilities	2,311.30	
Net Pension Liability	46,888.00	
Increase/(Decrease) in Deferred Inflows of Resources:		
Deferred Inflows of Resources - Related to Pensions	(90,981.00)	
Total Adjustments	<u>(90,981.00)</u>	(4,997,937.04)
Net Cash Provided by Operations		<u>\$ (7,670,440.94)</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, 2017**

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 SDCCD 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 SDCCD 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 SDCCD 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 except for Guaranteed Investment Contracts, which are nonparticipating and, therefore, are recorded at carrying 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, 2017 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, \$3,016.92 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:	\$261,145,178
Current Year	
Administrative Expense:	\$412,078
Loan Disbursement:	\$34,929,743

K. Net Position

Net Position is classified in the following two components:

- Restricted - Consists of net position with constraints placed on their use by (1) bond indentures and (2) law through enabling legislation.
- Unrestricted - Consists of net position that does not meet the definition of net investment in capital assets or restricted.

L. Pension

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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 liability (asset) are recognized on an accrual basis of accounting.

2. CASH AND INVESTMENTS

Cash

Cash and Cash Equivalents during FY17 consisted of Federated Funds and the South Dakota Cash Flow Fund. However, on 3/31/2017 all the CWSRF funds in the SD Cash Flow Fund were transferred to US Bank. 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 internal investment pool. The fund paid 1.25% for state fiscal year 2017.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required 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.

Federated Funds were rated "AAAm by Standard and Poor's Rating Group and as of 6/30/17 they had an average annualized return of .035%.

Investments

Investments must be categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

US Bank which serves as trustee to the CWSRF uses a pricing service, FT Interactive, to value investments. FT Interactive uses market approach pricing which utilizes models and pricing systems as well as mathematical tools and pricing analyst judgment. All CWSRF investments are priced by this service, which is not quoted prices in an active market, but rather significant other observable inputs; therefore, the investments are categorized as Level 2.

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.

Level 2

Investment	Maturities	Fair Value
US Treasury Bonds	7/31/2017	\$ 386,923
US Treasury Bonds	12/31/2017	2,937,707
US Treasury Bonds	2/28/2018	2,777,060
US Treasury Bonds	3/31/2018	997,150
US Treasury Bonds	5/31/2018	2,740,128
US Treasury Bonds	6/30/2018	1,263,088
US Treasury Bonds	9/30/2018	1,241,162
US Treasury Bonds	10/31/2018	992,270
US Treasury Bonds	12/31/2018	1,248,000
US Treasury Bonds	12/31/2018	1,250,487
US Treasury Bonds	12/31/2018	1,002,190
US Treasury Bonds	4/30/2019	1,255,425
US Treasury Bonds	7/31/2019	1,055,668
		<u>\$ 19,147,258</u>
Federal Agency Bonds	8/28/2017	\$ 499,835
Federal Agency Bonds	3/07/2018	698,187
Federal Agency Bonds	4/09/2018	672,469
Federal Agency Bonds	8/07/2018	620,156
Federal Agency Bonds	10/01/2018	670,923
Federal Agency Bonds	2/26/2019	620,831
Federal Agency Bonds	3/18/2019	1,979,129
Federal Agency Bonds	5/28/2019	998,930
Federal Agency Bonds	7/19/2019	617,550
Federal Agency Bonds	8/05/2019	617,363
Federal Agency Bonds	10/24/2019	1,384,488
		<u>\$ 9,379,861</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.

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 \$9,379,861 which were rated AAA by Moody's Investor Services.

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, 2017, \$88,711,068 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 \$19,147,258 and in Federal Agency Bonds with a market value of \$9,379,861 were exposed to custodial credit risk.

Guaranteed Investment Contracts (GICS)

The CWSRF holds the following GICS where the rate of return is guaranteed.

	<u>Maturities</u>	<u>Contract Value</u>
Guaranteed Investment Contract	8/01/2017	\$ 1,832,503
Guaranteed Investment Contract	8/01/2025	17,689,851
Guaranteed Investment Contract	8/01/2026	69,188,714
		<u>\$ 88,711,068</u>

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>Contract Value</u>
Ba1/A-*	\$ 1,832,503
Baa1*	86,878,565
Total	<u>\$ 88,711,068</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.

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 \$261,145,178 loan receivable balance, \$19,914,292 is a long term receivable balance and \$891,485 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, 2017 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	1,465,000
Leveraged	4.084% - 5.646%	2030	14,565,000
Series 2012AB Taxable Revenue Bonds			
State Match	0.250% - 3.183%	2027	1,065,000
Leveraged	0.250% - 3.183%	2027	25,900,000
Revenue Bonds			
State Match	2.000% - 5.000%	2030	2,175,000
Leveraged	2.000% - 5.000%	2033	40,380,000
Series 2014A Taxable Revenue Bonds			
State Match	0.300% - 1.920%	2020	2,550,000
Series 2014B Revenue Bonds			
Leveraged	2.000% - 5.000%	2035	42,105,000
Total			<u>156,335,000</u>
Add: Unamortized Bond Premium			15,643,338
Total Net of Amortization			<u>\$ 171,978,338</u>

Future bond payments and future interest payments remaining as of June 30, 2017 are as follows:

Year Ended June 30,	Principal	Interest	Total Principal and Interest
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	8,730,000	5,646,540	14,376,540
2022	10,165,000	5,285,165	15,450,165
2023-2027	53,815,000	19,538,122	73,353,122
2028-2032	40,240,000	8,077,986	48,317,986
2033-2035	13,420,000	848,500	14,268,500
TOTAL	\$ 156,335,000	\$ 58,320,116	\$ 214,655,116

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 166,210,000	\$ 0	\$ (9,875,000)	\$ 156,335,000	\$ 10,125,000
Add: Bond Premium	16,615,808	0	(972,470)	15,643,338	972,470
Total	182,825,808	0	(10,847,470)	171,978,338	11,097,470
Compensated Absences	68,203	20,791	(21,888)	67,106	35,687
Long-Term Liabilities	<u>\$ 182,894,011</u>	<u>\$ 20,791</u>	<u>\$ (10,869,358)</u>	<u>\$ 172,045,444</u>	<u>\$ 11,133,157</u>

5. COMMITMENTS

As of June 30, 2017, the CWSRF had loan commitments with political subdivisions worth \$65,312,111.

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, 2017, 2016, and 2015 were \$17,740.53, \$18,228.77, and \$18,378.31, respectively, equal to the required contributions each year.

The net pension liability was measured as of June 30, 2016 and the SDRS was 96.89% funded. At June 30, 2017, DENR reported a liability of \$46,888 for its proportionate share of the net pension liability. At June 30, 2017, deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 16,323	\$ -
Changes in assumption	28,084	-
Net difference between projected and actual earnings on pension plan investments	49,911	
Changes in Proportionate Share	205	768
Contributions after the measurement date	17,741	-
Total	<u>\$ 112,264</u>	<u>\$ 768</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, 2017, a liability existed for accumulated annual leave calculated at the employee's June 30, 2017 pay rate in the amount of \$27,976.67. 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, 2017, a liability existed for accumulated sick leave, calculated at each employee's June 30, 2017 pay rate in the amount of \$39,129.43. The total leave liability of \$67,106.10 at June 30, 2017 is shown as a liability on the balance sheet.

8. RISK MANAGEMENT

The Board of Water and Natural Resources and the Department of Environment and Natural Resources are 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 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, 5) coverage for property loss through the South Dakota Property and Casualty Insurance Company, LLC. 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 August 2017, the South Dakota Conservancy District issued its State Revolving Fund Program Bonds, Series 2017 consisting of \$7,325,000 principal amount of Taxable Revenue Bonds, Series 2017A and \$64,865,000 principal amount Revenue Bonds, Series 2017B. The following is a summary of the estimated sources and uses of Clean Water Series 2017 Bonds:

	Series		
	2017A	Series 2017B	Total
	(Taxable)	(Tax-Exempt)	
<u>Sources:</u>			
Bond Proceeds (Par)	\$ 7,325,000	\$ 64,865,000	\$ 72,190,000
Premium	-	14,121,878	14,121,878
Total Sources of Funds	<u>\$ 7,325,000</u>	<u>\$ 78,986,878</u>	<u>\$ 86,311,878</u>
 <u>Uses:</u>			
Refund Series 2010B Clean Water Bonds	\$ -	\$ 5,743,425	\$ 5,743,425
Refund Series 2012B Clean Water Bonds	765,666	30,217,955	30,983,621
Deposit to Clean Water State Match Loan Fund	6,500,000	-	6,500,000
Deposit to Clean Water Leveraged Loan Fund	-	42,500,000	42,500,000
Cost of Issuance	59,334	525,498	584,832
Total Uses of Funds	<u>\$ 7,325,000</u>	<u>\$ 78,986,878</u>	<u>\$ 86,311,878</u>

SCHEDULE OF THE CLEAN WATER STATE REVOLVING FUND CONTRIBUTIONS

as of June 30, 2017

South Dakota Retirement System

Last 10 Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 17,741	\$ 18,229	\$ 15,918	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	\$ 17,741	\$ 18,229	\$ 15,918	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund's covered-employee payroll	\$ 273,068	\$ 270,166	\$ 266,303	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	6.50%	6.75%	5.98%							

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

SCHEDULE OF THE CLEAN WATER STATE REVOLVING FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

as of June 30, 2017

South Dakota Retirement System

Last 10 Fiscal Years *

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Fund's proportion of the net pension liability (asset)	0.06231%	0.06474%	0.05850%	%	%	%	%	%	%	%
Fund's proportionate share of net pension liability (asset)	\$ 46,888	\$ (61,641)	\$ (92,993)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund's covered-employee payroll	\$ 273,068	\$ 270,166	\$ 266,303	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	17.17%	22.82%	34.92%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	97%	104%	107%							

* The amounts presented for each fiscal year were determined as of 06/30 of the previous year.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.