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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

**RECEIVED**

**NOV 2 - 2015**

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 Drinking 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  
DRINKING 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  
DRINKING 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 Drinking 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 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 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.

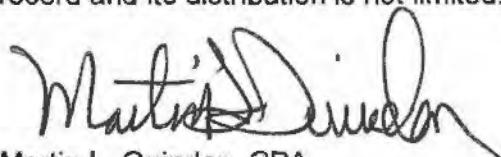
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Drinking 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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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 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, 2015, 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, 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.I. 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.I. 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 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, 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  
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, 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 Drinking 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 drinking water projects.

In October 2014, the 2014A and B Series bonds were issued in the amount of \$10,955,000 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 DRINKING WATER STATE REVOLVING FUND**

**Changes in Assets and Liabilities**

Due to the issue noted above, cash and investments increased by \$12,047,155. Also, due to the bond issue, bonds payable went up by \$10,955,000 along with a premium of \$1,120,023.

SOUTH DAKOTA BOARD OF WATER AND NATURAL RESOURCES  
 DRINKING 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 6.2% – primarily due to total revenues for the Fund exceeding total expenses by \$9,850,703. The federal capitalization grants received totaling \$11.45 million and investment income of \$2.6 million represented the primary reason for the change. 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 Statement 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.

<b>NET POSITION</b>			
	<b>2015</b>	<b>2014</b>	<b>% Change</b>
Current Assets	\$ 44,868,955	\$ 23,275,527	92.8%
Noncurrent Assets	193,904,061	197,269,089	-1.7%
<b>Total Assets</b>	<b>238,773,016</b>	<b>220,544,616</b>	<b>8.3%</b>
Related To Pensions	70,247	0	100.0%
Deferred Amount of Refunding	2,513,541	2,777,204	-9.5%
<b>Total Deferred Outflow of Resources</b>	<b>2,583,788</b>	<b>2,777,204</b>	<b>-7.0%</b>
Current Liabilities	6,927,078	5,817,914	19.12%
Noncurrent Liabilities	65,709,306	58,730,829	11.9%
<b>Total Liabilities</b>	<b>72,636,384</b>	<b>64,548,743</b>	<b>12.5%</b>
Related to Pensions	89,451	0	100.0%
<b>Total Deferred Inflow of Resources</b>	<b>89,451</b>	<b>0</b>	<b>100.0%</b>
Net Position:			
Restricted For Pension Benefits	58,031	0	100.0%
Unrestricted	168,572,938	158,773,077	6.2%
<b>Total Net Position</b>	<b>\$ 168,630,969</b>	<b>\$ 158,773,077</b>	<b>6.2%</b>

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

**CHANGES IN NET POSITION**

	<b>2015</b>	<b>2014</b>	<b>% Change</b>
Loan Interest Income	\$ 3,311,988	\$ 3,418,373	-3.1%
Other Income	884,959	909,108	-2.7%
<b>Total Operating Revenue</b>	<b>4,196,947</b>	<b>4,327,481</b>	<b>-3.0%</b>
Administrative Expenses	929,420	965,935	-3.8%
Grant Expenses	4,553,346	5,492,643	-17.1%
Interest Expense	2,389,349	2,306,726	3.6%
Arbitrage	704,442	572,202	23.1%
Bond Issuance Expense	69,121	0	100.0%
<b>Total Operating Expenses</b>	<b>8,645,678</b>	<b>9,337,506</b>	<b>-7.4%</b>
<b>Operating Income (Loss)</b>	<b>(4,448,731)</b>	<b>(5,010,025)</b>	<b>-11.2%</b>
Federal Capitalization Grants	11,451,552	6,021,835	90.2%
Other Income	208,533	206,960	0.8%
Investment Income	2,645,194	3,163,023	-16.4%
Investment Expense	(5,845)	(14,837)	-60.6%
<b>Non Operating Rev (Exp)</b>	<b>14,299,434</b>	<b>9,376,981</b>	<b>52.5%</b>
<b>Transfers out</b>	<b>(34,284)</b>	<b>(26,549)</b>	<b>29.1%</b>
<b>Change in Net Position</b>	<b>9,816,419</b>	<b>4,340,407</b>	<b>126.2%</b>
<b>Beginning Net Position*</b>	<b>158,814,550</b>	<b>154,432,670</b>	<b>2.8%</b>
<b>Total Net Position</b>	<b>\$ 168,630,969</b>	<b>\$ 158,773,077</b>	<b>6.2%</b>

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

SOUTH DAKOTA BOARD OF WATER AND NATURAL RESOURCES  
DRINKING 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 Drinking Water State Revolving Fund Program assists the state in meeting these challenges and infrastructure needs. In state fiscal year 2015, the Drinking Water State Revolving Fund obligated \$34.0 million to 25 projects.

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

<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 20,255,705.14
Investments	11,438,728.00
Due from Federal Government	239,952.71
Due from Other Governments	169,091.84
Accrued Interest Receivable	1,838,083.28
Loans Receivable	10,927,394.42
<b>Total Current Assets</b>	<u>44,868,955.39</u>
Noncurrent Assets:	
Investments	61,754,995.91
Restricted Net Pension Asset	77,235.00
Loans Receivable	132,071,829.65
<b>Total Noncurrent Assets</b>	<u>193,904,060.56</u>
<b>Total Assets</b>	<u>238,773,015.95</u>
<b>Deferred Outflows of Resources</b>	
Related to Pensions	70,247.00
Deferred Charge on Refunding	2,513,540.69
<b>Total Deferred Outflows of Resources</b>	<u>2,583,787.69</u>
<b>Liabilities</b>	
Current Liabilities:	
Accounts Payable	166,667.09
Accrued Liabilities	18,329.51
Compensated Absences Payable	23,975.87
Accrued Interest Payable	987,871.19
Arbitrage Payable	27,167.00
Bonds Payable - net of unamortized premium and discount	5,703,067.18
<b>Total Current Liabilities</b>	<u>6,927,077.84</u>
Noncurrent Liabilities:	
Compensated Absences Payable	21,287.24
Arbitrage Payable	661,967.87
Bonds Payable - net of unamortized premium and discount	65,026,051.16
<b>Total Noncurrent Liabilities</b>	<u>65,709,306.27</u>
<b>Total Liabilities</b>	<u>72,636,384.11</u>
<b>Deferred Inflows of Resources</b>	
Related to Pensions	89,451.00
<b>Total Deferred Inflows of Resources</b>	<u>89,451.00</u>
<b>Net Position</b>	
Restricted For Pension Benefits	58,031.00
Unrestricted	168,572,937.53
<b>Total Net Position</b>	<u>\$ 168,630,968.53</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 REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
For the Fiscal Year Ended June 30, 2015**

<b>Operating Revenues:</b>		
Loan Interest Income		\$ 3,311,987.95
Other Income		884,958.92
Total Operating Revenue		<u>4,196,946.87</u>
<b>Operating Expenses:</b>		
Administrative Expenses		
Personal Services	224,886.88	
Employee Benefits	44,708.14	
Travel	8,086.97	
Contractual	569,929.95	
Supplies	1,146.31	
Grants	79,920.00	
Other	<u>741.78</u>	
Total Administrative Expenses		929,420.03
Grant Expense		4,553,346.00
Interest Expense		2,389,348.44
Bond Issuance Costs		69,121.39
Arbitrage Rebate		704,442.14
Total Operating Expenses		<u>8,645,678.00</u>
Operating Income (Loss)		(4,448,731.13)
<b>Nonoperating Revenue (Expenses):</b>		
Federal Capitalization Grants		11,451,552.07
Other Income		208,533.69
Investment Income		2,645,193.78
Investment Expense		<u>(5,845.38)</u>
Total Nonoperating Revenues (Expenses)		<u>14,299,434.16</u>
Income (Loss) Before Transfers		9,850,703.03
<b>Transfers:</b>		
Transfer Out		<u>(34,284.04)</u>
Change in Net Position		9,816,418.99
Net Position at Beginning of Year, restated		<u>158,814,549.54</u>
<b>Net Position at End of Year</b>		<u><u>\$ 168,630,968.53</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, 2015**

<b>Cash Flows from Operating Activities:</b>		
Receipts for Loan Repayments	\$ 17,368,527.60	
Receipts for Interest Income on Loans	3,410,234.14	
Receipts for Surcharge Interest on Loans	896,354.53	
Arbitrage Payment	(176,998.24)	
Payments to Loan Recipients	(14,620,395.00)	
Payments for Employee Services	(285,499.54)	
Payments for Contractual Services	(566,250.32)	
Payments for Grants	(63,920.00)	
Payments for Principal Forgiveness	(4,553,346.00)	
Other Payments	(9,524.37)	
Net Cash Provided (Used) by Operating Activities		1,399,182.80
<b>Cash Flows from Noncapital Financing Activities:</b>		
Transfers Out	(34,284.04)	
Principal Payments on Bonds	(4,475,000.00)	
Interest Payments on Bonds	(2,183,032.78)	
Bond Issuance Costs	(69,121.39)	
Bond Proceeds	12,075,023.35	
Receipts for Administering Program	11,460,909.00	
Other Income	208,533.69	
Net Cash Provided (Used) by Noncapital Financing Activities		16,983,027.83
<b>Cash Flows from Investing Activities:</b>		
Interest on Investments	2,669,347.95	
Proceeds from Sale of Investment Securities	9,479,719.81	
Purchase of Investment Securities	(20,525,024.09)	
Net Cash Provided (Used) by Investing Activities		(8,375,956.33)
Net Increase (Decrease) in Cash and Cash Equivalents		10,006,254.30
Cash and Cash Equivalents at Beginning of Year		10,249,450.84
Cash and Cash Equivalents at End of Year		\$ 20,255,705.14
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>		
Operating Income (Loss)		\$ (4,448,731.13)
<b>Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:</b>		
Interest Expense	2,389,348.44	
Bond Issuance Expense	69,121.39	
<b>Assets: (Increase)/Decrease</b>		
Loans Receivable	2,748,132.60	
Accrued Interest Receivable on Loans	98,246.19	
Due from Other Governments	14,657.61	
Pension Assets	(47,010.00)	
<b>Deferred Outflows of Resources: (Increase)/Decrease</b>		
Deferred Outflows of Resources - Related to Pensions	(58,999.00)	
<b>Liabilities: Increase/(Decrease)</b>		
Accounts Payable	20,130.32	
Accrued Employee Benefits	(5,367.73)	
Accrued Liabilities	2,759.21	
Arbitrage	527,443.90	
<b>Deferred Inflows of Resources: Increase/(Decrease)</b>		
Deferred Inflows of Resources - Related to Pensions	89,451.00	
Total Adjustments		5,847,913.93
Net Cash Provided by Operations		\$ 1,399,182.80

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, 2015**

**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:	\$142,999,224
Current Year	
Administrative Expense:	\$774,979
Loan Disbursement:	\$19,173,741

#### I. 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. Drinking Water SRF contributions and net pension asset are recognized on an accrual basis of accounting.

Net position June 30, 2014, as previously reported	\$158,773,076.54
Restatement for pension accounting:	
Net pension asset	30,225.00
Pension related deferred outflows of resources	11,248.00
Net position July 1, 2014, as restated	<u>\$158,814,549.54</u>

J. Restricted Net Position

The net position associated with reporting the DWSRF'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 Drinking Water State Revolving Fund's investments may not be returned. At June 30, 2015, \$58,053,276 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 made in US Treasury Bonds with a market value of \$13,217,086 and in Federal Agency Bonds with a market value of \$1,923,362 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	\$ 44,604,833
Guaranteed Investment Contract	8/01/2026	13,448,443
		<u>\$ 58,053,276</u>
US Treasury Bonds	11/30/2015	\$ 955,045
US Treasury Bonds	12/31/2015	2,001,020
US Treasury Bonds	1/31/2016	2,002,740
US Treasury Bonds	2/29/2016	2,501,375
US Treasury Bonds	3/31/2016	500,490
US Treasury Bonds	4/30/2016	3,002,460
US Treasury Bonds	5/31/2016	1,250,738
US Treasury Bonds	8/31/2016	478,339
US Treasury Bonds	5/31/2017	524,879
		<u>\$ 13,217,086</u>

Federal Agency Bonds	3/30/2016	\$	475,599
Federal Agency Bonds	4/27/2017		529,305
Federal Agency Bonds	8/28/2017		145,232
Federal Agency Bonds	12/20/2017		399,464
Federal Agency Bonds	3/07/2018		373,762
		\$	<u>1,923,362</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	\$ 58,053,276

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 DWSRF held Federal Agency Bonds with a fair value of \$1,923,362 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, 2015 are as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity Through</u>	<u>Principal Balance</u>
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	12,105,000
State Match Term Bonds	2.000% - 5.125%	2030	5,230,000
Series 2012AB Taxable Revenue Bonds State Match	0.250% - 3.183%	2027	4,660,000
Leveraged	0.250% - 3.183%	2027	20,505,000
Revenue Bonds State Match	2.000% - 5.000%	2023	1,850,000
Series 2014A Taxable Revenue Bonds State Match	0.300% - 1.920%	2020	5,035,000
Series 2014B Revenue Bonds Leveraged	2.000% - 5.000%	2035	5,920,000
Total			<u>67,970,000</u>
Add: Unamortized Premium			<u>2,759,118</u>
Total Net of Amortization			<u>\$ 70,729,118</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	\$ 5,535,000	\$ 2,307,489	\$ 7,842,489
2017	5,925,000	2,174,213	8,099,213
2018	6,075,000	2,022,697	8,097,697
2019	6,255,000	1,853,711	8,108,711
2020	5,850,000	1,684,739	7,534,739
2021-2025	22,115,000	6,173,766	28,288,766
2026-2030	13,275,000	2,498,253	15,773,253
2031-2035	<u>2,940,000</u>	<u>292,342</u>	<u>3,232,342</u>
TOTAL	<u>\$ 67,970,000</u>	<u>\$ 19,007,210</u>	<u>\$ 86,977,210</u>

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	\$ 61,490,000	\$ 10,955,000	\$ (4,475,000)	\$ 67,970,000	\$ 5,535,000
Add: Bond Premium	1,789,824	1,120,023	(150,729)	2,759,118	168,067
Total	63,279,824	12,075,023	(4,625,729)	70,729,118	5,703,067
Compensated Absences	50,631	16,819	(22,187)	45,263	23,976
Long-Term Liabilities	<u>\$ 63,330,455</u>	<u>\$ 12,091,842</u>	<u>\$ (4,647,916)</u>	<u>\$ 70,774,381</u>	<u>\$ 5,727,043</u>

**5. COMMITMENTS**

As of June 30, 2015, the DWSRF had loan commitments with political subdivisions worth \$45,330,494.

**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 \$15,353.52, \$12,834.14, and \$11,824.35, 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, the DWSRF reported an asset of \$77,235 for its proportionate share of the net pension asset. For the fiscal year ended June 30, 2015, pension revenue of \$3,262 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	\$ 6,535	\$ -
Changes in assumption	50,416	-
Net difference between projected and actual earnings on pension plan investments	-	89,451
Contributions after the measurement date	13,296	-
Total	<u>\$ 70,247</u>	<u>\$ 89,451</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 \$20,763. 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 \$24,500. The total leave liability of \$45,263 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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