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

AUDIT REPORT

Fiscal Year Ended June 30, 2013

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

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

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

The Honorable Dennis Daugaard
Governor of South Dakota

and

South Dakota Board of Water and Natural Resources

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Clean Water State Revolving Fund, which comprise the statement of net position as of June 30, 2013, 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, and have issued our report thereon dated February 20, 2014.

Internal Control Over Financial Reporting

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

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

or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Martin L. Guindon, CPA
Auditor General

February 20, 2014

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AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

South Dakota Board of Water and Natural Resources

Report on the Financial Statements

We have audited the accompanying financial statements of the 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, 2013, 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, 2013, 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 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, 2013, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2014 on our consideration of the South Dakota Board of Water and Natural Resources' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the South Dakota Board of Water and Natural Resources' internal control over financial reporting and compliance.

Martin L. Guindon, CPA
Auditor General

February 20, 2014

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, 2013. This analysis has been prepared by management of the Board, and is intended to be read in conjunction with the Fund's financial statements and related footnotes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Changes in Net Position

For the fiscal year ended June 30, 2013, net position of the Fund increased by only .4% - primarily due to total revenues for the program amounting to $887,771 more than total expenses for the fund. While operating revenue did decrease by over 2.5%, operating expenses offset this by going down by more than 33%, mainly due to a smaller amount of loan principal being forgiven.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

NET POSITION

	2013	2012	% Change
Current Assets	$ 75,123,910	$ 102,740,695	-26.9%
Noncurrent Assets	270,910,811	247,503,898	9.5%
Total Assets	346,034,721	350,244,593	-1.2%
Current Liabilities	10,911,663	8,492,089	28.5%
Noncurrent Liabilities	140,421,691	147,908,877	-5.1%
Total Liabilities	151,333,354	156,400,966	-3.2%
Net Position:			
Restricted	98,749	98,783	0.0%
Unrestricted	194,602,618	193,744,844	0.4%
Total Net Position	$ 194,701,367	$ 193,843,627	0.4%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CHANGES IN NET POSITION

	2013	Restated 2012	% Change
Loan Int. Income	$ 4,039,336	$ 3,927,396	2.9%
Other Income	1,237,680	1,242,849	-0.4%
Total Operating Revenue	5,277,016	5,170,245	2.5%
Administrative Expenses	2,760,295	1,647,262	67.6%
Grant Expenses	1,877,115	10,625,607	-82.3%
Other Expense	0	73	-100.0%
Interest Expense	5,404,346	3,990,387	35.4%
Arbitrage	775,604	90,096	760.9%
Bond Issuance Expense	51,856	51,601	0.5%
Total Operating Expenses	10,869,216	16,405,026	-33.7%
Operating Loss	(5,592,201)	(11,234,781)	50.2%
Federal Cap Grants	2,616,290	4,288,793	-39.0%
Other Income	462,112	504,473	-8.4%
Investment Income	3,429,428	3,493,582	-1.8%
Investment Expense	(27,858)	0	100.0%
Non Operating Rev (Exp)	6,479,972	8,286,848	-21.8%
Transfers	(30,031)	(31,393)	-4.3%
Change in Net Position	857,740	(2,979,326)	-128.8%
Beginning Net Position	193,843,627	196,822,953	-1.5%
Ending Net Position	$ 194,701,367	$ 193,843,627	0.4%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

ECONOMIC OUTLOOK

South Dakota's economy continues to grow with state tax revenue for fiscal year 2012 increasing 7.40% higher than fiscal year 2011. Employment transitioned from a recovery phase to an expansion phase in fiscal year 2012 after the 2007-09 recession. In addition, for the first seven months of fiscal year 2013, sales and use tax collections, excluding audits, were 4.46% higher from the first seven months of last fiscal year. Although there has been signs of improvement in the economy, challenges still remain and growth seems to be leveling off.

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 assists the State to meet the challenges of EPA and infrastructure requirements. In State fiscal year 2013, the State of South Dakota obligated $48.8 million dollars to 24 projects.

SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2013

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 55,148,069.43
Restricted Cash and Cash Equivalents	2,978.47
Total Cash and Cash Equivalents	55,151,047.90
Due From Federal Governments	96,969.34
Due From Other Governments	270,170.78
Deferred Charges	51,839.91
Accrued Interest Receivable	2,360,428.30
Loans Receivable	17,193,453.80
Total Current Assets	75,123,910.03
Noncurrent Assets:	
Investments	70,231,397.32
Restricted Investments	95,770.84
Deferred Charges	821,331.22
Loans Receivable	199,762,311.31
Total Noncurrent Assets	270,910,810.69
Total Assets	346,034,720.72
Liabilities	
Current Liabilities:	
Accounts Payable	294,144.26
Accrued Liabilities	16,433.74
Compensated Absences Payable	40,106.18
Accrued Interest Payable	2,292,386.45
Arbitrage Payable	679,618.82
Bonds Payable - net of unamortized premium, discount, and deferred amount of refunding	7,588,973.88
Total Current Liabilities	10,911,663.33
Noncurrent Liabilities:	
Compensated Absences Payable	35,055.33
Arbitrage Payable	184,062.51
Bonds Payable - net of unamortized premium, discount, and deferred amount of refunding	140,202,572.73
Total Noncurrent Liabilities:	140,421,690.57
Total Liabilities	151,333,353.90
Net Position	
Restricted For Debt Service	98,749.31
Unrestricted	194,602,617.51
Total Net Position	$ 194,701,366.82

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, 2013

Operating Revenues:		
Loan Interest Income		$ 4,039,335.53
Other Income		1,237,680.25
Total Operating Revenues		5,277,015.78
Operating Expenses:		
Administrative Expenses		
Personal Services	200,634.05	
Employee Benefits	67,403.36	
Travel	12,813.30	
Contractual	642,422.84	
Supplies	1,002.66	
Grants	1,834,313.79	
Other	1,705.40	
Total Administrative Expenses		2,760,295.40
Grant Expense		1,877,115.00
Interest Expense		5,404,345.70
Arbitrage Rebate		775,604.24
Bond Issuance Expense		51,856.20
Total Operating Expenses		10,869,216.54
Operating Income (Loss)		(5,592,200.76)
Nonoperating Revenues (Expenses):		
Federal Capitalization Grants		2,616,289.73
Other Income		462,112.52
Investment Income		3,429,427.79
Investment Expense		(27,858.48)
Total Nonoperating Revenues (Expenses)		6,479,971.56
Income (Loss) Before Transfers		887,770.80
Transfers:		
Transfers Out		(30,030.94)
Change in Net Position		857,739.86
Net Position at Beginning of Year		193,843,626.96
Net Position at End of Year		$ 194,701,366.82

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, 2013

Cash Flows from Operating Activities:		
Receipts for Loan Repayments	$ 20,354,670.89	
Receipts for Interest Income on Loans	3,959,954.39	
Receipts for Surcharge Interest on Loans	1,227,127.29	
Payments to Loan Recipients	(35,544,705.00)	
Payments for Employee Services	(254,841.35)	
Payments for Contractual Services	(736,453.92)	
Payment for Grants	(3,932,690.05)	
Other Payments	(15,521.36)	
Net Cash Provided (Used) by Operating Activities		(14,942,459.11)
Cash Flows from Noncapital Financing Activities:		
Bond Issuance Costs Paid	(148,538.32)	
Transfers Out	(30,030.94)	
Principal Payments on Bonds	(6,110,000.00)	
Interest Payments on Bonds	(4,694,158.53)	
Receipts for Administering Program	2,616,396.00	
Other Income	462,112.52	
Net Cash Provided (Used) by Noncapital Financing Activities		(7,904,219.27)
Cash Flows from Investing Activities:		
Interest on Investments	3,200,744.67	
Proceeds from Sale of Investment Securities	4,951,734.47	
Purchase of Investment Securities	(14,859,042.41)	
Net Cash Provided (Used) by Investing Activities		(6,706,563.27)
Net Increase (Decrease) in Cash and Cash Equivalents		(29,553,241.65)
Cash and Cash Equivalents at Beginning of Year		84,704,289.55
Cash and Cash Equivalents at End of Year		$ 55,151,047.90
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		$ (5,592,200.76)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Interest Expense	5,404,345.70	
Amortization of Bond Issuance Cost	51,856.20	
Assets: (Increase)/Decrease		
Loans Receivable	(15,190,034.11)	
Accrued Interest Receivable on Loans	(79,381.14)	
Due from Other Governments	(10,552.96)	
Liabilities: Increase/(Decrease)		
Accounts Payable	(118,670.67)	
Due To Other Funds	(196,621.67)	
Accrued Employee Benefits	12,520.27	
Accrued Liabilities	675.79	
Arbitrage	775,604.24	
Total Adjustments		(9,350,258.35)
Net Cash Provided by Operations		$ (14,942,459.11)

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

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 to administer the program. 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 South Dakota Conservancy District is considered a blended component unit of the State of South Dakota. 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. The Clean Water State Revolving Fund is a part of the State of South Dakota and, as such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

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. Deferred Charges

Issuance costs, discounts, premiums, and 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, 2013, 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 $95,771

In addition, $2,978.47 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 interest expense on bonds, 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:	$216,955,765
Current Year	
Administrative Expense:	$346,924
Loan Disbursement:	$35,544,705

K. Change in Account Classification:

In prior years federal capitalization grant revenue was classified as operating income in the statement of revenues, expenses and changes in fund net position. In FY13 federal capitalization grant revenue has been classified as nonoperating income to reflect a more generally accepted method of reporting.

L. Recent Accounting Pronouncements:

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which will result in a reclassification of some financial statement lines on the balance sheet of governments. The objective of this statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize

certain items that were previously reported as assets and liabilities as expenses and revenues, such as debt issuance costs, fees and costs associated with mortgage banking activities, lending activities and loan purchases. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. Accounting changes adopted to conform to the provisions of this Statement will be applied retroactively by restating financial statements for all periods presented. The Board is currently evaluating the impact this statement will have on financial reporting.

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 7/01/2012– 6/30/2013. 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 1.47% for state fiscal year 2013.

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 SDIC, 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, 2013, $70,327,168 of guaranteed investment contracts were uninsured and unregistered, with the securities held by its trust department, but not in the CWSRF's name.

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	8/01/2015	$ 1,103,792
Guaranteed Investment Contract	8/01/2017	865,127
Guaranteed Investment Contract	8/01/2025	12,966,518
Guaranteed Investment Contract	8/01/2026	55,391,731
		$ 70,327,168

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.

Moody's Rating	Fair Value
A2	$ 1,103,792
Ba3*	865,127
Baa1*	68,358,249
Total	$ 70,327,168

* These guarantor's ratings are below the acceptable rating category (i.e., below Moody's Aa3). These 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 $216,955,765 loan receivable balance, $3,325,568 is a long 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, 2013 are as follows:

Issue	Interest Rate	Maturity Through	Principal Balance
Series 1996A			
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	2,385,000
Leveraged	4.084 – 5.646%	2030	23,735,000
Series 2012AB			
Taxable Revenue Bonds			
State Match	0.250 – 3.183%	2027	2,775,000
Leveraged	0.250 – 3.183%	2027	36,145,000
Revenue Bonds			
State Match	2.000 – 5.000%	2030	3,575,000
Leveraged	2.000 – 5.000%	2033	46,890,000
Total			141,635,000
Less: Unamortized Deferred Amount of Refunding			(4,339,139)
Add: Unamortized Bond Premium			10,495,685
Total Net of Amortization			$ 147,791,546

Future bond payments and future interest payments remaining as of June 30, 2013 are as follows:

Year Ended June 30,	Principal	Interest	Total Principal And Interest
2014	$ 7,415,000	$ 5,427,342	$ 12,842,342
2015	7,580,000	5,240,680	12,820,680
2016	7,460,000	5,024,255	12,484,255
2017	7,500,000	4,799,669	12,299,669
2018	7,710,000	4,556,284	12,266,284
2019-2023	38,575,000	18,898,570	57,564,570
2024-2028	40,475,000	10,618,550	51,093,550
2029-2033	24,920,000	2,625,323	27,545,323
TOTAL	$ 141,635,000	$ 57,281,673	$ 198,916,673

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	$ 147,745,000	$	$ (6,110,000)	$ 141,635,000	$ 7,415,000
Add: Bond Premium	11,044,049		(548,364)	10,495,685	548,364
Less: Deferred Amount of Refunding	(4,713,529)		374,390	(4,339,139)	(374,390)
Total	154,075,520		(6,283,974)	147,791,546	7,588,974
Compensated Absences	62,641	21,058	(8,537)	75,162	40,106
Long-Term Liabilities	$ 154,138,161	$ 21,058	$ (6,292,511)	$ 147,866,708	$ 7,629,080

5. COMMITMENTS

As of June 30, 2013, the CWSRF had loan commitments with political subdivisions worth $93,439,010.

6. RETIREMENT PLAN

The Department of Environment and Natural Resources participates in the South Dakota Retirement System (SDRS) a cost-sharing, multiple employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The CWSRF contributions to the SDRS for the fiscal years ended June 30, 2013, 2012, and 2011, were $13,751.34, $13,580.48, and $12,422.19, respectively, equal to the required contributions each year.

7. ANNUAL AND SICK LEAVE ACCRUAL

All employees earn annual leave. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2013, a liability existed for accumulated annual leave calculated at the employee's June 30, 2013 pay rate in the amount of $31,873.79. 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, 2013, a liability existed for accumulated sick leave, calculated at each employee's June 30, 2013 pay rate in the amount of $43,287.73. The total leave liability of $75,161.52 at June 30, 2013 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 Compensation 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.