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

## AUDIT REPORT

## Fiscal Year Ended June 30, 2013

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

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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, 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

STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

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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, 2013, 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, 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 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, 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
DRINKING WATER STATE REVOLVING FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Dakota Board of Water 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, 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 DRINKING WATER STATE REVOLVING FUND

#### Changes in Net Position

For the fiscal year ended June 30, 2013, net position of the Fund increased by 4.1% - primarily due to total revenues for the fund amounting to $6,151,926 more than total expenses. Nonoperating Revenue increased by more than 25% due mostly to revenue received through federal grants. This increase in revenue was due to more dollars given out in loans. Also, operating expenses decreased by 5.5% mainly due to a smaller amount of loan principal being forgiven.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

### NET POSITION

| | 2013 | 2012 | % Change |
|---|---|---|---|
| Current Assets | $ 28,571,202 | $ 36,814,452 | -22.4% |
| Noncurrent Assets | 192,314,547 | 181,667,086 | 5.9% |
| **Total Assets** | 220,885,749 | 218,481,538 | 1.1% |
| | | | |
| Current Liabilities | 5,480,818 | 4,974,647 | 10.2% |
| Noncurrent Liabilities | 60,528,159 | 64,756,208 | -6.5% |
| **Total Liabilities** | 66,008,977 | 69,730,855 | -5.3% |
| | | | |
| Net Position: | | | |
| Unrestricted | 154,876,772 | 148,750,683 | 4.1% |
| **Total Net Position** | $ 154,876,772 | $ 148,750,683 | 4.1% |

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
(Continued)

**CHANGES IN NET POSITION**

| | 2013 | Restated 2012 | % Change |
|---|---|---|---|
| Loan Int. Income | $ 3,392,330 | $ 3,610,606 | -6.0% |
| Other Income | 929,189 | 1,064,543 | -12.7% |
| **Total Operating Revenue** | 4,321,519 | 4,675,149 | -7.6% |
| Administrative Expenses | 836,926 | 710,802 | 17.7% |
| Grant Expenses | 6,913,248 | 7,684,229 | -10.0% |
| Other Expense | 0 | 48 | -100.0% |
| Interest Expense | 2,435,826 | 2,495,705 | -2.4% |
| Arbitrage | 118,087 | 4,098 | 2781.6% |
| Bond Issuance Expense | 28,217 | 38,686 | -27.1% |
| **Total Operating Expenses** | 10,332,304 | 10,933,568 | -5.5% |
| **Operating Loss** | (6,010,785) | (6,258,419) | 4.0% |
| Federal Cap Grants | 9,380,251 | 7,125,214 | 31.6% |
| Other Income | 224,834 | 245,444 | -8.4% |
| Investment Income | 2,562,872 | 2,350,618 | 9.0% |
| Investment Expense | (5,245) | 0 | 100.0% |
| **Non Operating Rev (Exp)** | 12,162,712 | 9,721,276 | 25.1% |
| **Transfers** | (25,838) | (28,060) | -7.9% |
| **Change in Net Position** | 6,126,089 | 3,434,797 | 78.4% |
| **Beginning Net Position** | 148,750,683 | 145,315,886 | 2.4% |
| **Ending Net Position** | $ 154,876,772 | $ 148,750,683 | 4.1% |

## 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 Drinking 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 $17.5 million dollars to 13 projects.

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

| | |
|---|---|
| **Assets** | |
| Current Assets: | |
| Cash and Cash Equivalents | $ 15,917,576.74 |
| Due From Federal Government | 227,804.54 |
| Due From Other Governments | 188,421.48 |
| Deferred Charges | 28,216.73 |
| Accrued Interest Receivable | 1,875,044.11 |
| Loans Receivable | 10,334,138.25 |
| Total Current Assets | 28,571,201.85 |
| Noncurrent Assets: | |
| Investments | 53,485,499.31 |
| Deferred Charges | 415,885.35 |
| Loans Receivable | 138,413,161.89 |
| Total Noncurrent Assets | 192,314,546.55 |
| **Total Assets** | 220,885,748.40 |
| **Liabilities** | |
| Current Liabilities: | |
| Accounts Payable | 166,078.00 |
| Accrued Liabilities | 11,815.42 |
| Compensated Absences Payable | 24,390.02 |
| Accrued Interest Payable | 936,264.02 |
| Arbitrage Payable | 113,867.83 |
| Bonds Payable - net of unamortized premium and deferred on refunding | 4,228,402.70 |
| Total Current Liabilities | 5,480,817.99 |
| Noncurrent Liabilities: | |
| Compensated Absences Payable | 21,318.42 |
| Arbitrage Payable | 4,219.54 |
| Bonds Payable - net of unamortized premium and deferred on refunding | 60,502,620.82 |
| Total Noncurrent Liabilities | 60,528,158.78 |
| **Total Liabilities** | 66,008,976.77 |
| **Net Position** | |
| Unrestricted | 154,876,771.63 |
| **Total Net Position** | $ 154,876,771.63 |

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, 2013**

| | | |
|---|---|---|
| **Operating Revenues:** | | |
| Loan Interest Income | | $ 3,392,330.22 |
| Other Income | | 929,188.85 |
| Total Operating Revenues | | 4,321,519.07 |
| | | |
| **Operating Expenses:** | | |
| Administrative Expenses | | |
| Personal Services | 170,344.97 | |
| Employee Benefits | 38,766.20 | |
| Travel | 10,875.06 | |
| Contractual | 559,992.81 | |
| Supplies | 1,002.67 | |
| Grants | 54,238.41 | |
| Other | 1,705.41 | |
| Total Administrative Expenses | | 836,925.53 |
| Grant Expense | | 6,913,248.00 |
| Interest Expense | | 2,435,826.20 |
| Arbitrage Rebate | | 118,087.37 |
| Bond Issuance Expense | | 28,217.10 |
| Total Operating Expenses | | 10,332,304.20 |
| | | |
| Operating Income (Loss) | | (6,010,785.13) |
| | | |
| **Nonoperating Revenues (Expenses):** | | |
| Federal Capitalization Grants | | 9,380,251.38 |
| Other Income | | 224,834.16 |
| Investment Income | | 2,562,871.91 |
| Investment Expense | | (5,245.84) |
| Total Nonoperating Revenues (Expenses) | | 12,162,711.61 |
| | | |
| Income (Loss) Before Transfers | | 6,151,926.48 |
| | | |
| **Transfers:** | | |
| Transfers Out | | (25,837.85) |
| | | |
| Change in Net Position | | 6,126,088.63 |
| | | |
| Net Position at Beginning of Year | | 148,750,683.00 |
| | | |
| **Net Position at End of Year** | | $ 154,876,771.63 |

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, 2013**

| | | |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Receipts for Loan Repayments | $ 16,564,557.85 | |
| Receipts for Interest Income on Loans | 3,243,301.12 | |
| Receipts for Surcharge Interest on Loans | 908,409.92 | |
| Payments to Loan Recipients | (24,795,598.00) | |
| Payments for Employee Services | (219,593.94) | |
| Payments for Contractual Services | (580,238.81) | |
| Payment for Grants | (6,982,048.00) | |
| Other Payments | (13,583.14) | |
| Net Cash Provided (Used) by Operating Activities | | (11,874,793.00) |
| **Cash Flows from Noncapital Financing Activities:** | | |
| Bond Issue Cost Paid | (51,615.07) | |
| Transfers Out | (25,837.85) | |
| Principal Payments on Bonds | (4,050,000.00) | |
| Interest Payments on Bonds | (2,121,655.05) | |
| Receipts for Administering Program | 9,431,076.00 | |
| Other Income | 224,834.16 | |
| Net Cash Provided (Used) by Noncapital Financing Activities | | 3,406,802.19 |
| **Cash Flows from Investing Activities:** | | |
| Interest on Investments | 2,394,850.14 | |
| Proceeds from Sale of Investment Securities | 5,651,914.78 | |
| Purchase of Investment Securities | (8,770,503.80) | |
| Net Cash Provided (Used) by Investing Activities | | (723,738.88) |
| Net Increase (Decrease) in Cash and Cash Equivalents | | (9,191,729.69) |
| Cash and Cash Equivalents at Beginning of Year | | 25,109,306.43 |
| Cash and Cash Equivalents at End of Year | | $ 15,917,576.74 |
| **Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities** | | |
| Operating Income (Loss) | | $ (6,010,785.13) |
| **Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:** | | |
| Interest Expense | 2,435,826.20 | |
| Amortization of Bond Issuance Cost | 28,217.10 | |
| **Assets: (Increase)/Decrease** | | |
| Loans Receivable | (8,231,040.15) | |
| Accrued Interest Receivable on Loans | (149,029.10) | |
| Due from Other Governments | (20,778.93) | |
| **Liabilities: Increase/(Decrease)** | | |
| Accounts Payable | (34,807.59) | |
| Accrued Employee Benefits | (8,219.48) | |
| Accrued Liabilities | (2,263.29) | |
| Arbitrage Payable | 118,087.37 | |
| Total Adjustments | | (5,864,007.87) |
| Net Cash Provided by Operations | | $ (11,874,793.00) |

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

## 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 (Board), 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 is considered a blended component unit 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. The Drinking 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 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. Deferred Charges

Issuance costs, discounts, and premiums 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 interest expense on bonds, 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: | $148,747,300 |
| Current Year | |
| Administrative Expense: | $761,304 |
| Loan Disbursement: | $24,795,598 |

I. Change in Account Classification:

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

J. 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 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, 2013, $53,485,499 of guaranteed investment contracts were uninsured and unregistered, with the securities held by its trust department, but not in the DWSRF'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 | 8/01/2025 | $ 42,570,314 |
| Guaranteed Investment Contract | 8/01/2026 | 10,915,185 |
| | | $ 53,485,499 |

*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.

| Moody's Rating | Fair Value |
|---|---|
| Baa1 | $ 53,485,499 |

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.

## 3. LOANS RECEIVABLE

Loans receivable consists 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, 2013 are as follows:

| Issue | Interest Rate | Maturity Through | Principal Balance |
|---|---|---|---|
| Series 2010AB | | | |
| Build America Bonds (BABs) | | | |
| Leveraged Term Bonds | 4.084 – 5.646% | 2031 | $ 12,665,000 |
| Tax Exempt Bonds | | | |
| Leveraged Term Bonds | 2.000 – 5.125% | 2030 | 14,710,000 |
| State Match Term Bonds | 2.000 – 5.125% | 2030 | 6,340,000 |
| Series 2012AB | | | |
| Taxable Revenue Bonds | | | |
| State Match | 0.250 – 3.183% | 2027 | 5,480,000 |
| Leveraged | 0.250 – 3.183% | 2027 | 24,175,000 |
| Revenue Bonds | | | |
| State Match | 2.000 – 5.000% | 2023 | 2,500,000 |
| Total | | | 65,870,000 |
| Less: Unamortized Deferred Amount of Refunding | | | (3,040,867) |
| Add: Unamortized Bond Premium | | | 1,901,890 |
| Total Net of Amortization | | | $ 64,731,023 |

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 | $ 4,380,000 | $ 2,196,904 | $ 6,576,904 |
| 2015 | 4,475,000 | 2,088,284 | 6,563,284 |
| 2016 | 4,575,000 | 1,969,107 | 6,544,107 |
| 2017 | 4,685,000 | 1,844,186 | 6,529,186 |
| 2018 | 4,825,000 | 1,707,348 | 6,532,348 |
| 2019-2023 | 21,895,000 | 6,474,392 | 28,369,392 |
| 2024-2028 | 15,465,000 | 3,022,472 | 18,487,472 |
| 2029-2033 | 5,570,000 | 376,181 | 5,946,181 |
| TOTAL | $ 65,870,000 | $ 19,678,874 | $ 85,548,874 |

Changes in long-term liabilities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Revenue Bonds | $ 69,920,000 | $ | $ (4,050,000) | $ 65,870,000 | $ 4,380,000 |
| Add: Bond Premium | 2,013,956 | | (112,066) | 1,901,890 | 112,066 |
| Less: Deferred Amount of Refunding | (3,304,530) | | 263,663 | (3,040,867) | (263,663) |
| Total | 68,629,426 | | (3,898,403) | 64,731,023 | 4,228,403 |
| Compensated Absences | 53,928 | 13,844 | (22,064) | 45,708 | 24,390 |
| Long-Term Liabilities | $ 68,683,354 | $ 13,844 | $ (3,920,467) | $ 64,776,731 | $ 4,252,793 |

## 5. COMMITMENTS

As of June 30, 2013, the DWSRF had loan commitments with political subdivisions worth $21,763,607.

## 6. RETIREMENT PLAN

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

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The DWSRF contributions to the SDRS for the fiscal years ended June 30, 2013, 2012, and 2011, were $11,824.35, $12,102.65, and $11,170.96, 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 $20,432. 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 $25,277. The total leave liability of $45,708 at June 30, 2013 is shown as a liability on the balance sheet.

## 8. PUBLIC ENTITY POOL FOR LIABILITY

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.