

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

AUDIT REPORT

Fiscal Year Ended June 30, 2024



**State of South Dakota
Department of Legislative Audit**
427 South Chapelle
% 500 East Capitol
Pierre, SD 57501-5070

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
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RUSSELL A. OLSON
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 Kristi Noem
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, a component unit of the State of South Dakota, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Clean Water State Revolving Fund's basic financial statements, and have issued our report thereon dated October 4, 2024.

Report on 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) as a basis for designing 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 South Dakota Board of Water and Natural Resources' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

Report on 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 financial statements. 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.



Russell A. Olson, Auditor General
Pierre, South Dakota

October 4, 2024

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

There were no current findings.

PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Finding:

Finding No. 2023-001: Inadequate Internal Controls Over Financial Reporting

Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially accurate.

This finding has been substantially resolved.



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RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Kristi Noem
Governor of South Dakota

and

South Dakota Board of Water and Natural Resources

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Clean Water State Revolving Fund, a component unit of the State of South Dakota, as of and for the year ended June 30, 2024, 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.

In our opinion, the accompanying 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, 2024, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the South Dakota Board of Water and Natural Resources and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Clean Water State Revolving Fund and do not purport to, and do not, present fairly the financial position of the South Dakota Board of Water and Natural Resources as of June 30, 2024, the changes in its financial position, or, where applicable, its cash flows for the

year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the South Dakota Board of Water and Natural Resources' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 South Dakota Board of Water and Natural Resources' internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clean Water State Revolving Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-9 and the Schedules of Proportionate Share of the Net Pension Liability (Asset) and Employer Contributions on pages 21-22 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2024 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the South Dakota Board of Water and Natural Resources' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Board of Water and Natural Resources' internal control over financial reporting and compliance.



Russell A. Olson, Auditor General
Pierre, South Dakota

October 4, 2024

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, 2024. This analysis has been prepared by management of the Department and is intended to be read in conjunction with the Fund's financial statements and related footnotes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

DEBT ADMINISTRATION

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Changes in Assets and Liabilities

Cash and investments decreased by \$127,587,854, mainly due to the sale and maturity of investments used to fund loan commitments. Additional funding of loans led to a \$126,269,291 total increase in Loans Receivable. In addition, total bonds payable decreased by \$20,067,003.

Changes in Net Position

For the fiscal year ended June 30, 2024, net position of the Fund increased by \$18,580,552 or 6.86%. This increase is higher than the 1.17% increase in FY23 and is primarily the result of an increase of federal capitalization receipts. The federal capitalization receipts for the current fiscal year increased by 872.58% or \$12,805,831.

NET POSITION			
	2024	2023	% Change
Current Assets	\$ 104,331,771	\$ 205,441,694	-49.22%
Noncurrent Assets	547,955,438	448,093,685	22.29%
Total Assets	652,287,209	653,535,379	-0.19%
Related to Pensions	91,358	94,113	-2.93%
Deferred Amount of Refunding	3,244,511	3,839,791	-15.50%
Total Deferred Outflows of Resources	3,335,869	3,933,904	-15.20%
Current Liabilities	27,130,921	27,357,696	-0.83%
Noncurrent Liabilities	339,110,019	359,308,529	-5.62%
Total Liabilities	366,240,940	386,666,225	-5.28%
Related to Pensions	53,002	54,474	-2.70%
Total Deferred Inflows of Resources	53,002	54,474	-2.70%
Net Position:			
Restricted For Pension Benefits	39,414	40,574	-2.86%
Unrestricted	289,289,722	270,708,010	6.86%
Total Net Position	\$ 289,329,136	\$ 270,748,584	6.86%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN NET POSITION

	2024	2023	% Change
Loan Interest Income	\$ 7,049,546	\$ 6,493,416	8.56%
Other Income	2,428,491	1,805,403	34.51%
Total Operating Revenue	9,478,037	8,298,819	14.21%
Administrative Expenses	1,614,904	2,875,278	-43.83%
Bond Issuance Costs	-	552,821	
Grant Expenses	1,893,565	1,895,608	-0.11%
Interest Expense	12,345,321	12,015,669	2.74%
Total Operating Expenses	15,853,790	17,339,376	-8.57%
Operating Income (Loss)	(6,375,753)	(9,040,557)	-29.48%
Federal Capitalization	14,463,379	1,657,548	872.58%
Other Income	296,939	357,335	-16.90%
Investment Income	10,807,712	10,405,646	3.86%
Arbitrage	(566,746)	(201,695)	180.99%
Payments to State	(44,979)	(44,910)	0.15%
Non-Operating Rev (Exp)	24,956,305	12,173,924	105.00%
Change in Net Position	18,580,552	3,133,367	492.99%
Beginning Net Position	270,748,584	267,615,217	1.17%
Total Net Position	\$ 289,329,136	\$ 270,748,584	6.86%

CURRENT CONDITIONS

The State is challenged demographically with a large number of small rural communities and only two cities with populations over 50,000 people. The Clean Water State Revolving Fund Program assists the State in meeting these challenges and infrastructure needs. In State fiscal year 2024, the Clean Water State Revolving Fund obligated \$218.5 million to 37 projects.

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2024**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 50,942,687.48
Investments	22,856,717.00
Due from Federal Government	369,981.07
Due from Other Governments	628,052.04
Accrued Interest Receivable	4,077,524.95
Loans Receivable	25,456,808.03
Total Current Assets	<u>104,331,770.57</u>

Noncurrent Assets:

Investments	89,141,677.69
Net Pension Assets	1,058.00
Loans Receivable	458,812,702.10
Total Noncurrent Assets	<u>547,955,437.79</u>

Total Assets

652,287,208.36

Deferred Outflows of Resources

Related to Pensions	91,358.00
Deferred Charge on Refunding	3,244,511.40
Total Deferred Outflows of Resources	<u>3,335,869.40</u>

Liabilities

Current Liabilities:

Accounts Payable	66,568.49
Accrued Liabilities	25,728.08
Compensated Absences Payable	14,124.60
Accrued Interest Payable	6,347,497.83
Bonds Payable - net of unamortized premium and discount	20,677,002.36
Total Current Liabilities	<u>27,130,921.36</u>

Noncurrent Liabilities:

Compensated Absences Payable	11,839.71
Arbitrage Payable	768,440.27
Bonds Payable - net of unamortized premium and discount	338,329,738.78
Total Noncurrent Liabilities	<u>339,110,018.76</u>

Total Liabilities

366,240,940.12

Deferred Inflows of Resources

Related to Pensions	53,002.00
Total Deferred Inflows of Resources	<u>53,002.00</u>

Net Position

Restricted For Pension Obligations	39,414.00
Unrestricted	289,289,721.64

Total Net Position

\$ 289,329,135.64

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, 2024**

Operating Revenues:

Loan Interest Income	\$ 7,049,545.80
Other Income	<u>2,428,491.78</u>
Total Operating Revenues	<u>9,478,037.58</u>

Operating Expenses:

Administrative Expenses		
Personal Services	323,416.09	
Employee Benefits	89,293.54	
Travel	9,538.55	
Contractual	587,794.13	
Supplies	1,867.99	
Grants	599,834.88	
Other	<u>3,159.26</u>	
Total Administrative Expenses		1,614,904.44
Loan Principal Forgiveness Expense		1,893,565.00
Interest Expense		<u>12,345,320.92</u>
Total Operating Expenses		<u>15,853,790.36</u>

Operating Income (Loss) (6,375,752.78)

Nonoperating Revenues (Expenses):

Federal Capitalization Grants	14,463,378.63
Other Income	296,938.60
Investment Income	10,807,711.76
Arbitrage Expense	(566,745.24)
Payments to State	<u>(44,979.12)</u>
Total Nonoperating Revenues (Expenses)	<u>24,956,304.63</u>

Change in Net Position 18,580,551.85

Net Position at Beginning of Year 270,748,583.79

Net Position at End of Year \$ 289,329,135.64

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, 2024**

Cash Flows from Operating Activities:		
Receipts for Loan Repayments	\$ 32,540,792.14	
Receipts for Interest Income on Loans	6,613,621.86	
Receipts for Surcharge Interest on Loans	2,352,175.62	
Payments to Loan Recipients	(158,810,082.00)	
Payments for Employee Services	(421,577.44)	
Payments for Contractual Services	(609,834.91)	
Payment for Grants	(1,186,620.60)	
Payments for Principal Forgiveness	(1,893,565.00)	
Other Payments	(5,495.10)	
Net Cash Provided (Used) by Operating Activities		(121,420,585.43)
Cash Flows from Noncapital Financing Activities:		
Payments to State	(44,979.12)	
Principal Payments on Bonds	(16,520,000.00)	
Interest Payments on Bonds	(15,612,287.83)	
Contributions and Grants from the Federal Government	14,424,601.00	
Other Income	461,475.97	
Net Cash Provided (Used) by Noncapital Financing Activities		(17,291,189.98)
Cash Flows from Investing Activities:		
Interest on Investments	11,585,048.33	
Proceeds from Sale of Investment Securities	94,106,088.77	
Purchase of Investment Securities	(8,670,394.18)	
Net Cash Provided (Used) by Investing Activities		97,020,742.92
Net Increase (Decrease) in Cash and Cash Equivalents		(41,691,032.49)
Cash and Cash Equivalents at Beginning of Year		92,633,719.97
Cash and Cash Equivalents at End of Year		\$ 50,942,687.48
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		\$ (6,375,752.78)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Interest Expense	12,345,320.92	
Assets: (Increase)/Decrease		
Loans Receivable	(126,269,289.86)	
Accrued Interest Receivable on Loans	(435,923.94)	
Due from Other Governments	(76,316.16)	
Net Pension Assets	(123.00)	
Decrease/(Increase) in Deferred Outflows of Resources:		
Deferred Outflows of Resources - Related to Pensions	2,755.00	
Liabilities: Increase/(Decrease)		
Accounts Payable	(608,992.95)	
Accrued Employee Benefits	1,725.44	
Accrued Liabilities	(2,516.10)	
Increase/(Decrease) in Deferred Inflows of Resources:		
Deferred Inflows of Resources - Related to Pensions	(1,472.00)	
Total Adjustments		(115,044,832.65)
Net Cash Provided by Operations		\$ (121,420,585.43)

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2024**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authorizing Legislation

The 1988 South Dakota Legislature authorized the State Water Pollution Control Revolving Loan Fund Program, also known as the Clean Water State Revolving Fund (CWSRF) Loan Program. Additionally, the legislature appropriated \$1,200,000 and directed the South Dakota Conservancy District (SDCD) to administer the program. The SDCC 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 SDCC 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 SDCC 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 Annual Comprehensive Financial Report of the State of South Dakota. The Department of Agriculture and Natural Resources performs all of the functions of the South Dakota Conservancy District, except for quasi-legislative, quasi-judicial, advisory, and special budgetary functions, which are performed by the Board of Water and Natural Resources acting in its capacity as the Conservancy District. The CWSRF is a low interest loan program to finance the construction of wastewater facilities, storm sewers and non-point source pollution control projects. The program was created by the 1987 Clean Water Act amendments. Funds are provided to the states in the form of capitalization grants awarded annually through the United States Environmental Protection Agency. The federal capitalization grants are matched by state funds at a ratio of 5:1.

B. Fund Accounting

The CWSRF is accounted for as an enterprise fund. An enterprise fund is a proprietary fund type used to report an activity for which a fee is charged to external users for goods or services.

C. Basis of Accounting

The CWSRF follows the accrual basis of accounting. This method of accounting recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows.

D. Cash and Cash Equivalents

For purposes of the accompanying Statement of Net Position and Statement of Cash Flows all highly liquid investments with original maturities of 90 days or less are considered to be cash equivalents.

E. Investments

Investments are reported at fair value except for Guaranteed Investment Contracts, which are nonparticipating and, therefore, are recorded at carrying value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

F. Premiums and Deferred Amounts on Refunding

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

G. Revenue and Expense Recognition

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with an enterprise fund's principal ongoing operations. The CWSRF records all revenues derived from interest on loans as operating revenues since these revenues are generated from the CWSRF's daily operations needed to carry out its purpose. Operating expenses include grants and subsidies, and contractual service expenses related to the administration of the CWSRF program.

H. Federal Capitalization Grant

Federal capitalization grant contributions are 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:	Agriculture & Natural Resources

Current Year Contributions

Loan Disbursement:	\$13,899,046
Administrative Expense:	\$ 544,973

I. Net Position

Net Position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Position is classified in the following two components:

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

When both restricted and unrestricted funds are eligible for use in payment of expenses, the type of expense to be incurred is analyzed to determine the best funding source based on available funds and plans for future projects.

J. Pension

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Clean Water SRF contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

K. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liability, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows or resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow or resources until the applicable future period.

2. CASH AND INVESTMENTS

Cash

Cash and Cash Equivalents at the end of FY24 consisted of Federated Government Obligations Funds. The South Dakota Conservancy District has adopted an Investment Policy to supplement the provisions of the Master Trust Indenture, various Series Resolutions and supplemental indentures and certain tax regulatory agreements related to the investment of funds.

Federated Government Obligations Fund was rated AAAM by Standard and Poor's Rating Group and as of 6/30/24 had a total annualized return of 5.31%.

Investments

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

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The maturities of the investments as of June 30, 2024 are listed below.

Level 2

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
US Treasury Bond	07/15/2024	\$ 499,040
US Treasury Bond	06/30/2024	3,000,000
US Treasury Bond	08/15/2024	6,459,765
US Treasury Bond	05/31/2025	3,920,502
		<u>\$ 13,879,307</u>

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Federal Agency Bond	10/03/2024	\$ 8,977,410
		<u>\$ 8,977,410</u>

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the CWSRF.

Excluding investments explicitly guaranteed by the U.S. Government which are not considered to have credit risk, the CWSRF held Federal Agency Bonds with a fair value of \$8,977,410 which were rated AAA by Moody's Investor Services.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the CWSRF's investments may not be returned. As of June 30, 2024, \$89,141,678 of guaranteed investment contracts were uninsured and unregistered, with the securities held by its trust department, but not in the CWSRF's name and, as a result, were exposed to custodial credit risk. Also, investments were made in US Treasury Bonds with a market value of \$13,879,307 and in Federal Agency Bonds with a market value of \$8,977,410 were exposed to custodial credit risk.

Guaranteed Investment Contracts (GICS):

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

	<u>Maturities</u>	<u>Contract Value</u>
Guaranteed Investment Contract	8/01/2025	\$ 18,046,383
Guaranteed Investment Contract	8/01/2026	71,095,295
		<u>\$ 89,141,678</u>

The South Dakota State Revolving Fund Master Trust Indenture requires any investment agreement to be with a guarantor whose long-term rating category is no lower than the two highest long-term rating categories. The investment is rated by Moody's Investors Service. The ratings for Guaranteed Investment Contracts are as follows:

<u>Moody's Rating</u>	<u>Contract Value</u>
Baa2*	<u>\$ 89,141,678</u>

* These guarantor's ratings are below the acceptable rating category (i.e., below Moody's Aa3). The Guaranteed Investment Contract investments have been fully collateralized with government securities in accordance with the provisions of Guaranteed Investment Contracts. These fully collateralized investments have a fair value that equates to contract value.

3. LOANS RECEIVABLE

Loans receivable consist of loans made to local governments through a loan agreement. In order for a borrower to receive a loan, evidence must be shown that the principal and interest of the loan will be repaid. Loans made from the CWSRF may be made at or below market interest rates and may be fully amortized up to thirty years. Interest rates are reduced for those loans shorter than thirty years. As of June 30, 2024, the loan receivable amount for the CWSRF program is \$484,269,510.

The allowance for doubtful accounts is determined principally on the basis of loans that are in default. Receivables are reported at the gross amount and an allowance for doubtful accounts would reduce loan receivables by the outstanding loan balances that are in default. As of June 30, 2024, the District has no loans that are in default. Loans in default would be expensed only after it has been determined the collection process has been exhausted and all legal actions have been finalized.

4. LONG-TERM DEBT

The revenue bond issues outstanding as of June 30, 2024 are as follows:

Issue	Interest Rate	Maturity Through FY	Principal Balance
Series 2010AB			
Build America Bonds (BABs)			
State Match	5.034% - 5.646%	2031	\$ 1,390,000
Leveraged	5.034% - 5.646%	2031	13,445,000
Tax Exempt Bonds			
State Match	5.125%	2030	178,544
Leveraged	5.125%	2030	1,785,441
Series 2012A			
Taxable Bonds			
State Match	2.883% - 3.183%	2027	320,000
Leveraged	2.883% - 3.183%	2027	7,700,000
Series 2012B			
Tax Exempt Bonds			
Leveraged	5.000%	2031	2,950,000
Series 2014B			
Tax Exempt Bonds			
Leveraged	5.000%	2035	29,485,000
Series 2017B			
Tax Exempt Bonds			
State Match	5.00%	2033	900,000
Leveraged	5.00%	2038	54,330,000
Series 2018			
Tax Exempt Bonds			
Leveraged	5.00%	2039	48,260,000

Issue	Interest Rate	Maturity Through FY	Principal Balance
Series 2020 Tax Exempt Bonds Leveraged	5.00%	2043	73,865,000
Series 2022A Taxable Bonds State Match	4.40%-4.79%	2030	7,695,000
Series 2022B Tax Exempt Bonds Leveraged	5.0%	2048	66,010,000
Total			308,313,985
Add: Unamortized Bond Premium			50,692,757
Total Net of Amortization			<u>\$ 359,006,742</u>

Future bond payments and future interest payments remaining as of June 30, 2024 are as follows:

Year Ended June 30,	Principal	Interest	Total Principal and Interest
2025	\$ 17,130,000	\$ 14,836,664	\$ 31,966,664
2026	20,760,000	13,949,107	34,709,107
2027	19,997,861	12,975,709	32,973,570
2028	18,870,284	12,018,235	30,888,519
2029	19,360,090	11,064,374	30,424,464
2030-2034	85,505,750	41,770,457	127,276,207
2035-2039	69,690,000	22,665,250	92,355,250
2039-2043	39,650,000	8,890,750	48,540,750
2044-2048	17,350,000	1,788,000	19,138,000
TOTAL	<u>\$ 308,313,985</u>	<u>\$ 139,958,546</u>	<u>\$ 448,272,531</u>

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 324,833,985	\$ -	\$ (16,520,000)	\$ 308,313,985	\$ 17,130,000
Add: Bond Premium	54,239,758	-	(3,547,001)	50,692,757	3,547,002
Total	379,073,743	-	(20,067,001)	359,006,742	20,677,002
Compensated Absences	24,239	1,725	-	25,964	14,125
Long-Term Liabilities	<u>\$ 379,097,982</u>	<u>\$ 1,725</u>	<u>\$ (20,067,001)</u>	<u>\$ 359,032,706</u>	<u>\$ 20,691,127</u>

5. COMMITMENTS

As of June 30, 2024, the CWSRF had loan commitments with borrowers worth \$447,378,247.

6. PENSION PLAN

The Department of Agriculture and Natural Resources, (DANR), 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 Annual Comprehensive Financial Report (ACFR) will report the State's proportionate share of the plan. The ACFR 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. DANR contributions to the SDRS for the fiscal years ended June 30, 2024, 2023, and 2022 were \$18,120, \$16,775, and \$14,174, respectively, equal to the required contributions each year.

The net pension asset was measured as of June 30, 2023 and the estimated SDRS was 100.1% funded. At June 30, 2024, CWSRF reported an asset of \$1,058 for its proportionate share of the net pension asset. At June 30, 2024, 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	\$ 30,000	\$ -
Changes in assumption	36,185	52,894
Net difference between projected and actual earnings on pension plan investments	7,046	-
Changes in Proportionate Share	7	108
Contributions after the measurement date	18,120	-
Total	<u>\$ 91,358</u>	<u>\$ 53,002</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, 2024, a liability existed for accumulated annual leave calculated at the employee's June 30, 2024 pay rate. 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. The total leave liability of \$25,964 at June 30, 2024 is shown as a liability on the Statement of Net Position.

8. RISK MANAGEMENT

The Board of Water and Natural Resources and the Department of Agriculture and Natural Resources are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include; 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, 2) coverage of employee medical claims through the State's health insurance program, 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, and, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund, 5) coverage for property loss through the South Dakota Property and Casualty Insurance Company, LLC. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Annual Comprehensive Financial Report.

9. SUBSEQUENT EVENTS

During the week of August 5th, 2024, the South Dakota Conservancy District issued State Revolving Fund Program Bonds, Series 2024A totaling approximately \$180,000,000. The Series 2024A Bonds are proposed tax exempt bonds being issued to provide funds sufficient, together with other available moneys, (a) to provide funds in the approximate amount of \$120,000,000 to be deposited to the Clean Water Leveraged Loan Account established with respect to the Series 2024A Bonds which are to be loaned to Borrowers, (b) to provide funds in the approximate amount of \$60,000,000 to be deposited to the Drinking Water Leveraged Loan Account established with respect to the Series 2024A Bonds which are to be loaned to Borrowers, and (c) to provide funds to pay associated costs of issuance.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CLEAN WATER STATE REVOLVING FUND CONTRIBUTIONS**

as of June 30, 2024

South Dakota Retirement System

Last 10 Fiscal Years

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 18,120	\$ 16,775	\$ 14,174	\$ 14,895	\$ 17,696	\$ 17,871	\$ 19,155	\$ 17,741	\$ 18,229	\$ 15,918
Contributions in relation to the contractually required contribution	<u>18,120</u>	<u>16,775</u>	<u>14,174</u>	<u>14,895</u>	<u>17,696</u>	<u>17,871</u>	<u>19,155</u>	<u>17,741</u>	<u>18,229</u>	<u>15,918</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
21 Fund's covered-employee payroll	\$ 323,416	\$ 298,187	\$ 273,396	\$ 271,924	\$ 260,374	\$ 265,997	\$ 291,839	\$ 273,068	\$ 270,166	\$ 266,303
Contributions as a percentage of covered-employee payroll	5.60%	5.63%	5.18%	5.48%	6.80%	6.72%	6.56%	6.50%	6.75%	5.98%

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

as of June 30, 2024

South Dakota Retirement System

*Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Fund's proportion of the net pension liability (asset)	0.05263%	0.04813%	0.05351%	0.05542%	0.05791%	0.06294%	0.05888%	0.06231%	0.06470%	0.05850%
Fund's proportionate share of net pension liability (asset)	\$ (1,058)	\$ (935)	\$ (83,788)	\$ (497)	\$ (1,272)	\$ (308)	\$ (1,153)	\$ 46,888	\$ (61,641)	\$ (92,933)
Fund's covered-employee payroll	\$ 323,416	\$ 298,187	\$ 273,396	\$ 271,924	\$ 260,374	\$ 265,997	\$ 291,839	\$ 273,068	\$ 270,166	\$ 266,303
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(0.33%)	(0.31%)	(30.65%)	(0.18%)	(0.49%)	(0.12%)	(0.40%)	17.17%	(22.82%)	(34.90%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	100%	100%	100%	100%	100%	100%	100%	97%	104%	107%

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