

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

AUDIT REPORT

Fiscal Year Ended June 30, 2025



**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 Larry Rhoden
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, 2025, 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 1, 2025.

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.

A handwritten signature in black ink that reads "Russell A. Olson". The signature is written in a cursive, flowing style.

Russell A. Olson, Auditor General
Pierre, South Dakota

October 1, 2025



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RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Larry Rhoden
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, 2025, 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, 2025, 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, 2025, 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 6-8, and the Schedules of Proportionate Share of the Net Pension Liability (Asset) and Employer Contributions, on pages 20-21, be presented to supplement the basic financial statements. Such information 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 1, 2025 on our consideration of the South Dakota Board of Water and Natural Resources' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the South Dakota Board of Water and Natural Resources' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Board of Water and Natural Resources' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Russell A. Olson". The signature is written in a cursive, flowing style.

Russell A. Olson, Auditor General
Pierre, South Dakota

October 1, 2025

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, 2025. 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 by Standard and Poor's with a stable outlook and Aaa by Moody's Investor Service a stable outlook.

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

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

Changes in Assets and Liabilities

In FY25, the Fund issued Series 2024A and Series 2025A Revenue Bonds which had a total par amount of \$186,785,000 and had a premium amount of \$18,938,873. The bond proceeds provided funds to make future loans to borrowers, refunded Series 2014B outstanding liabilities, and to pay associated costs of the issuance.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Loans receivable increased \$126,206,799 or 26.06% which was funded with new bond proceeds, federal capitalization grants, and other funds. The bond issuances were the primary reason for the \$159,659,426 increase in total assets and \$156,338,667 increase in total liabilities.

Deferred charge on refunding outflow decreased \$595,280 while the deferred charge on refunding inflow increased \$3,372,909, which was primarily due to the difference between the net carrying amount and the reacquisition price of the refunded Series 2014B outstanding liabilities.

Changes in Net Position

In FY25, the net position decreased by \$657,271, which was 0.23% lower than the previous year. The decrease in the net position is largely due to the 263.32% increase of loan principal forgiveness expenses to \$6,879,763 and the 25.69% increase of interest expense to \$15,576,988. Administrative expenses increased 46.07% to \$2,358,823 and the Fund had \$731,074 in bond issue costs.

NET POSITION			
	2025	2024	% Change
Current Assets	\$ 166,079,114	\$ 104,331,771	59.18%
Noncurrent Assets	645,867,521	547,955,438	17.87%
Total Assets	811,946,635	652,287,209	24.48%
Related to Pensions	84,053	91,358	-8.00%
Deferred Amount on Refunding	2,649,232	3,244,511	-18.35%
Total Deferred Outflows of Resources	2,733,285	3,335,869	-18.06%
Current Liabilities	31,408,915	27,130,921	15.77%
Noncurrent Liabilities	491,170,693	339,110,019	44.84%
Total Liabilities	522,579,608	366,240,940	42.69%
Related to Pensions	55,538	53,002	4.78%
Deferred Amount on Refunding	3,372,909	0	100.00%
Total Deferred Inflows of Resources	3,428,447	53,002	6368.52%
Net Position:			
Restricted For Pension Benefits	28,951	39,414	-26.55%
Unrestricted	288,642,914	289,289,722	-0.22%
Total Net Position	\$ 288,671,865	\$ 289,329,136	-0.23%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN NET POSITION

	2025	2024	% Change
Loan Interest Income	\$ 9,026,854	\$ 7,049,546	28.05%
Other Income	2,772,600	2,428,491	14.17%
Total Operating Revenue	11,799,454	9,478,037	24.49%
Administrative Expenses	2,358,823	1,614,904	46.07%
Bond Issuance Costs	791,198	-	
Loan Principal Forgiveness Expenses	6,879,763	1,893,565	263.32%
Interest Expense	15,516,864	12,345,321	25.69%
Total Operating Expenses	25,546,648	15,853,790	61.14%
Operating Income (Loss)	(13,747,194)	(6,375,753)	116%
Federal Capitalization Grants	5,614,307	14,463,379	-61.18%
Other Income	247,096	296,939	-16.79%
Investment Income	8,472,691	10,807,712	-21.61%
Arbitrage	(975,713)	(566,746)	72.16%
Bad Expense	(216,729)	-	100.00%
Payments to State	(51,729)	(44,979)	15.01%
Non-Operating Rev (Exp)	13,089,923	24,956,305	-47.55%
Change in Net Position	(657,271)	18,580,552	-103.54%
Beginning Net Position	289,329,136	270,748,584	6.86%
Total Net Position	\$ 288,671,865	\$ 289,329,136	-0.23%

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 2025, the Clean Water State Revolving Fund obligated \$113.1 million to 28 projects.

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2025**

Assets

Current Assets:

Cash and Cash Equivalents		\$ 111,569,686.34
Investments		18,949,873.11
Accounts Receivable:		
Due from Federal Government	515,343.73	
Due from Other Governments	618,713.35	
Accrued Interest Receivable	4,875,016.66	
Loans Receivable	29,767,209.50	
Less Allowance for Uncollectible - Federal Government	(216,729.14)	
Total Accounts Receivable		<u>35,559,554.10</u>
Total Current Assets		<u>166,079,113.55</u>

Noncurrent Assets:

Investments		65,148,985.60
Net Pension Assets		436.00
Loans Receivable		<u>580,718,099.47</u>
Total Noncurrent Assets		<u>645,867,521.07</u>

Total Assets

811,946,634.62

Deferred Outflows of Resources

Related to Pensions		84,053.00
Deferred Charge on Refunding		<u>2,649,231.75</u>

Total Deferred Outflows of Resources

2,733,284.75

Liabilities

Current Liabilities:

Accounts Payable		67,109.34
Accrued Liabilities		31,396.19
Compensated Absences Payable		30,677.54
Accrued Interest Payable		8,202,244.71
Cost of Issuance Payable		60,124.00
Arbitrage Payable		652,584.81
Bonds Payable - net of unamortized premium and discount		<u>22,364,777.87</u>
Total Current Liabilities		<u>31,408,914.46</u>

Noncurrent Liabilities:

Compensated Absences Payable		45,069.48
Arbitrage Payable		1,091,568.62
Bonds Payable - net of unamortized premium and discount		<u>490,034,054.95</u>
Total Noncurrent Liabilities		<u>491,170,693.05</u>

Total Liabilities

522,579,607.51

Deferred Inflows of Resources

Related to Pensions		55,538.00
Deferred Charge on Refunding		<u>3,372,909.10</u>

Total Deferred Inflows of Resources

3,428,447.10

Net Position

Restricted For Pension Obligations		28,951.00
Unrestricted		<u>288,642,913.76</u>

Total Net Position

\$ 288,671,864.76

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, 2025**

Operating Revenues:

Loan Interest Income	\$ 9,026,853.85
Other Income	<u>2,772,599.89</u>
Total Operating Revenues	<u>11,799,453.74</u>

Operating Expenses:

Administrative Expenses		
Personal Services	365,489.01	
Employee Benefits	160,846.18	
Travel	10,793.64	
Contractual	812,648.78	
Supplies	1,715.58	
Grants	1,006,572.11	
Other	<u>758.01</u>	
Total Administrative Expenses		2,358,823.31
Loan Principal Forgiveness Expense		6,879,763.00
Bond Issuance Costs		791,197.73
Interest Expense		<u>15,516,863.91</u>
Total Operating Expenses		<u>25,546,647.95</u>

Operating Income (Loss)	(13,747,194.21)
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Nonoperating Revenue (Expenses):

Federal Capitalization Grants	5,614,307.48
Other Income	247,095.70
Investment Income	8,472,691.10
Arbitrage Expense	(975,713.16)
Other Expense	(216,729.14)
Payments to State	<u>(51,728.65)</u>
Total Nonoperating Revenues (Expenses)	<u>13,089,923.33</u>

Change in Net Position	(657,270.88)
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Net Position at Beginning of Year	<u>289,329,135.64</u>
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Net Position at End of Year	<u>\$ 288,671,864.76</u>
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The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2025**

Cash Flows from Operating Activities:

Receipts for Loan Repayments	\$ 26,090,429.16	
Receipts for Interest Income on Loans	8,212,886.09	
Receipts for Surcharge Interest on Loans	2,781,938.58	
Payments to Loan Recipients	(152,306,228.00)	
Payments for Employee Services	(470,632.63)	
Payments for Contractual Services	(805,627.63)	
Payment for Grants	(1,013,629.73)	
Payments for Principal Forgiveness	(6,879,763.00)	
Other Payments	(2,478.65)	
Net Cash Provided (Used) by Operating Activities		(124,393,105.81)

Cash Flows from Noncapital Financing Activities:

Payments to State	(51,728.65)	
Principal Payments on Bonds	(17,130,000.00)	
Transfer to Escrow	(27,890,337.50)	
Interest Payments on Bonds	(17,005,372.30)	
Bond Issuance Costs	(434,213.00)	
Bond Proceeds	205,427,012.47	
Contributions and Grants from the Federal Government	5,580,195.00	
Other Income	135,845.52	
Net Cash Provided (Used) by Noncapital Financing Activities		148,631,401.54

Cash Flows from Investing Activities:

Interest on Investments	9,253,310.73	
Proceeds from Sale of Investment Securities	36,955,499.63	
Purchase of Investment Securities	(9,820,107.23)	
Net Cash Provided (Used) by Investing Activities		36,388,703.13

Net Increase (Decrease) in Cash and Cash Equivalents 60,626,998.86

Cash and Cash Equivalents at Beginning of Year	50,942,687.48
Cash and Cash Equivalents at End of Year	<u>\$ 111,569,686.34</u>

Reconciliation of Operating Income to Net

Cash Provided (Used) by Operating Activities

Operating Income (Loss) \$ (13,747,194.21)

Adjustments to Reconcile Net Income to Net Cash

Provided (Used) by Operating Activities:

Interest Expense	15,516,863.91
Bond Issuance Expense	791,197.73

Assets: (Increase)/Decrease

Loans Receivable	(126,215,798.84)
Accrued Interest Receivable on Loans	(813,967.76)
Due from Other Governments	9,338.69
Net Pension Assets	622.00

Decrease/(Increase) in Deferred Outflows of Resources:

Deferred Outflows of Resources - Related to Pensions	7,305.00
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Liabilities: Increase/(Decrease)

Accounts Payable	540.85
Accrued Employee Benefits	49,782.71
Accrued Liabilities	5,668.11

Increase/(Decrease) in Deferred Inflows of Resources:

Deferred Inflows of Resources - Related to Pensions	2,536.00	
Total Adjustments		(110,645,911.60)
Net Cash Provided by Operations		<u>\$ (124,393,105.81)</u>

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025**

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 SDCD was created by the Legislature under Chapter 46A-2 of the South Dakota Codified Law as a body politic and corporate for the purpose of constructing water resource facilities for the conservation, storage, distribution and utilization of water for municipal purposes within the State of South Dakota. The SDCD bonds do not constitute a debt of the State of South Dakota, or a pledge of the faith and credit of the State. Because the State of South Dakota is able to impose its will over the SDCD and the governing body is substantively the same as the governing body of the primary government, it is considered a blended component unit and, as such, the accompanying financial statements are included in the 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 reported as nonoperating income in the statement of revenues, expenses, and changes in fund net position are for 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:	\$4,908,303
Administrative Expense:	\$ 585,919

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 of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

2. CASH AND INVESTMENTS

Cash

Cash and Cash Equivalents at the end of FY25 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 6/30/25 had a total annualized return of 4.62%.

Investments

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. As of June 30, 2025, \$84,098,859 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.

Guaranteed Investment Contracts (GICS):

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

	Maturities	Contract Value
Guaranteed Investment Contract	8/01/2025	\$ 18,949,873
Guaranteed Investment Contract	8/01/2026	65,148,986
		<u>\$ 84,098,859</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>
Baa1*	\$ 84,098,859

* 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, 2025, the loan receivable amount for the CWSRF program is \$610,485,309.

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, 2025, 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

On September 5, 2024, the District issued \$106,950,000 in Revenue Bonds, Series 2024A. The tax-exempt bond proceeds provided \$120,000,000 to be loaned to borrowers and provided funds to pay associated costs of issuance. Subsequently, on June 4, 2025, the District issued \$79,835,000 in Revenue Bonds, Series 2025A. The tax-exempt bond proceeds provided \$60,000,000 to be loaned to borrowers, \$24,922,588 deposited into escrow to refund 2014B outstanding debt, and pay associated costs of issuance.

The following is a summary of the sources and uses for the Clean Water Program FY25 Bond Issues:

<u>Sources:</u>	Series 2024A (Tax-Exempt)	Series 2025A (Tax-Exempt)	Series 2025A 2014B Refunding	Total
Bond Proceeds (Par)	\$ 106,950,000	\$ 56,930,000	\$ 22,905,000	\$ 186,785,000
Premium	13,610,656	3,242,132	2,086,085	18,938,873
Total Sources of Funds	<u>\$ 120,560,656</u>	<u>\$ 60,172,132</u>	<u>\$ 24,991,085</u>	<u>\$ 205,723,873</u>
<u>Uses:</u>				
Deposit to Leveraged Loan Fund	\$ 120,000,000	\$ 60,000,000	\$ -	\$ 180,000,000
Refund Series 2014B Clean Water Bonds	-	-	24,922,588	24,922,588
Cost of Issuance	309,712	139,389	55,324	504,425
Underwriter's Discount	250,944	32,743	13,173	296,860
Total Uses of Funds	<u>\$ 120,560,656</u>	<u>\$ 60,172,132</u>	<u>\$ 24,991,085</u>	<u>\$ 205,723,873</u>

The revenue bond issues outstanding as of June 30, 2025 are as follows:

Issue	Interest Rate	Maturity Through FY	Principal Balance
Series 2010AB			
Build America Bonds (BABs)			
State Match	5.284% - 5.646%	2031	\$ 1,080,000
Leveraged	5.284% - 5.646%	2031	10,395,000
Tax Exempt Bonds			
State Match	5.125%	2030	178,544
Leveraged	5.125%	2030	1,785,441
Series 2012A			
Taxable Bonds			
State Match	3.083% - 3.183%	2027	215,000
Leveraged	3.083% - 3.183%	2027	4,830,000
Series 2012B			
Tax Exempt Bonds			
Leveraged	5.000%	2031	2,950,000
Series 2017B			
Tax Exempt Bonds			
State Match	5.00%	2033	795,000
Leveraged	5.00%	2038	50,620,000
Series 2018			
Tax Exempt Bonds			
Leveraged	5.00%	2039	46,025,000
Series 2020			
Tax Exempt Bonds			
Leveraged	5.00%	2043	71,295,000
Series 2022A			
Taxable Bonds			
State Match	4.40%-4.79%	2029	7,695,000
Series 2022B			
Tax Exempt Bonds			
Leveraged	5.0%	2047	66,010,000
Series 2024A			
Tax Exempt Bonds			
Leveraged	5.0%	2055	106,950,000
Series 2025A			
Tax Exempt Bonds			
Leveraged	5.0%	2056	79,835,000
Total			450,658,985
Add: Unamortized Bond Premium			61,739,848
Total Net of Amortization			\$ 512,398,833

Future bond payments and future interest payments remaining as of June 30, 2025 are as follows:

Year Ended June 30,	Principal	Interest	Total Principal and Interest
2026	\$ 18,475,000	\$ 20,616,134	\$ 39,091,134
2027	19,802,861	21,068,584	40,871,445
2028	18,670,284	20,120,985	38,791,269
2029	19,150,090	19,177,374	38,327,464
2030	19,865,750	18,215,907	38,081,657
2031-2035	99,910,000	76,064,050	175,974,050
2036-2040	87,650,000	52,311,750	139,961,750
2041-2045	68,075,000	32,697,125	100,772,125
2046-2050	50,795,000	17,967,875	68,762,875
2051-2055	45,265,000	6,208,125	51,473,125
2056-2060	3,000,000	75,000	3,075,000
TOTAL	\$ 450,658,985	\$ 284,522,909	\$ 735,181,894

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 308,313,985	\$ 186,785,000	\$ (44,440,000)	\$ 450,658,985	\$ 18,475,000
Add: Bond Premium	50,692,757	18,938,873	(7,891,782)	61,739,848	3,889,778
Total	359,006,742	205,723,873	(52,331,782)	512,398,833	22,364,778
Compensated Absences	25,964	49,783		75,747	30,678
Long-Term Liabilities	\$ 359,032,706	\$ 205,773,656	\$ (52,331,782)	\$ 512,474,580	\$ 22,395,456

5. REFUNDED BONDS

The SDCD entered into a refunding whereby refunding bonds have been issued to facilitate defeasance of the District's obligation with respect to certain bond issues. The proceeds of the refunding issues have been placed in irrevocable escrow account and will provide amounts sufficient for future payment of interest and principal on the issues being refunded. Refunded bonds and the related assets held in the trust are not included in the accompanying financial statements since the District has satisfied its obligations with respect thereto through consummation of the refunding transactions.

The Tax-exempt Series 2025A refunding portion had an interest rate of 2.74 percent which was used to refund \$27,310,000 of outstanding Tax-exempt Series 2014B bonds with an interest rate of 2.97 percent. The net proceeds of the refunding portion of \$24,922,588 and \$2,967,750 of additional funds on hand were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payment on the refunded portions. As a result, the refunded portion bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3,399,727. This difference is being charged to operations through 2035 using the effective-interest method. The District completed the current refunding for a net economic gain of \$2,356,308. The difference between the cash flows of the refunded bonds and the new refunded bonds is a \$2,503,419 reduction in debt service payments.

6. COMMITMENTS

As of June 30, 2025, the CWSRF had loan commitments with borrowers worth \$450,113,643.

7. 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, 2025, 2024, and 2023 were \$20,112, \$18,120, and \$16,775, respectively, equal to the required contributions each year.

The net pension asset was measured as of June 30, 2025 and the estimated SDRS was 100% funded. At June 30, 2025, CWSRF reported an asset of \$436 for its proportionate share of the net pension asset. At June 30, 2025, 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	\$ 40,346	\$ -
Changes in assumption	7,183	54,756
Net difference between projected and actual earnings on pension plan investments	16,412	-
Changes in Proportionate Share	-	782
Contributions after the measurement date	20,112	-
Total	<u>\$ 84,053</u>	<u>\$ 55,538</u>

8. COMPENSATED ABSENCES

All full-time and permanent part-time employees earn vacation leave and sick leave. Employees earn fifteen days of vacation leave per year that can be accumulated to thirty days, except for employees with more than fifteen years of employment, who earn twenty days of vacation leave per year that can be accumulated to forty days. Annual leave can be used during the term of the employee's employment or upon termination employees will receive payment for their accumulated vacation leave. Employees earn fourteen days of sick leave per year. Sick leave can be used during the term of the employee's employment or unless dismissed for cause, employees who terminate after seven years of continuous employment receive payment for one-fourth of their accumulated sick leave balance, not to exceed four hundred eighty hours. A liability has been estimated and recorded in the financial statements for compensated absences based on a first-in-first-out flow assumption for the estimated leave to be used by the employees during the term of their employment as well as the remaining portion of the employees balances to be paid upon termination in accordance with GASB standards.

9. 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, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund, and, 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.

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

as of June 30, 2025

South Dakota Retirement System

Last 10 Fiscal Years

	<u>2025</u>	<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>
Contractually required contribution	\$ 20,112	\$ 18,120	\$ 16,775	\$ 14,174	\$ 14,895	\$ 17,696	\$ 17,871	\$ 19,155	\$ 17,741	\$ 18,229
Contributions in relation to the contractually required contribution	<u>20,112</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund's covered-employee payroll	\$ 365,489	\$ 323,416	\$ 298,187	\$ 273,396	\$ 271,924	\$ 260,374	\$ 265,997	\$ 291,839	\$ 273,068	\$ 270,166
Contributions as a percentage of covered-employee payroll	5.50%	5.60%	5.63%	5.18%	5.48%	6.80%	6.72%	6.56%	6.50%	6.75%

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

as of June 30, 2025

South Dakota Retirement System

*Last 10 Fiscal Years

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Fund's proportion of the net pension liability (asset)	0.04993%	0.05263%	0.04813%	0.05351%	0.05542%	0.05791%	0.06294%	0.05888%	0.0623%	0.06470%
Fund's proportionate share of net pension liability (asset)	\$ (436)	\$ (1,058)	\$ (935)	\$ (83,788)	\$ (497)	\$ (1,272)	\$ (308)	\$ (1,153)	\$ 46,888	\$ (61,641)
Fund's covered-employee payroll	\$ 365,489	\$ 323,416	\$ 298,187	\$ 273,396	\$ 271,924	\$ 260,374	\$ 265,997	\$ 291,839	\$ 273,068	\$ 270,166
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(0.12%)	(0.33%)	(0.31%)	(30.65%)	(0.18%)	(0.49%)	(0.12%)	(0.40%)	17.17%	(22.82%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	100%	100%	100%	100%	100%	100%	100%	100%	97%	104%

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