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

AUDIT REPORT

Fiscal Year Ended June 30, 2026

State of South Dakota
Department of Legislative Audit
427 South Chapelle
c/o 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, 2026, 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 7, 2026.

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 7, 2026

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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, 2026, 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, 2026, 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, 2026, 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.

As discussed in Note 2 to the financial statements, the Clean Water State Revolving Fund has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 103, Financial Reporting Model Improvements, for the year ended June 30, 2026. Accordingly, revenues and expenses have been reclassified within the statement of revenues, expenses, and changes in fund net position to comply with the new reporting model. 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 6-9, and the Schedules of Proportionate Share of the Net Pension Liability (Asset) and Employer Contributions, on pages 22-23, 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 7, 2026 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.

Russell A. Olson, Auditor General
Pierre, South Dakota

October 7, 2026

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, 2026. This analysis has been prepared by management of the Department and is intended to be read in conjunction with the Independent Auditor's Report, financial statements and notes to the financial statements.

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 report also contains required supplementary information on the South Dakota Retirement System.

The Statement of Net Position presents information on all 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.

Effective FY26, the Fund implemented GASB 103, which updates the proprietary fund reporting model by refining operating vs. nonoperating definitions, reclassifying financing-related items as nonoperating, requiring new subtotals for noncapital subsidies, and revising the ordering of revenues and expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Position. As a result, FY26 financial statements are not directly comparable to prior issued financial statements. Interest expense and bond issuance costs, previously reported as operating, are now nonoperating, significantly affecting operating income or loss. FY25 amounts have been revised for comparability.

FINANCIAL SUMMARY

NET POSITION

	2026	2025	% Change
Current Assets	$ 175,370,038	$ 166,079,114	5.59%
Noncurrent Assets	733,332,112	645,867,521	13.54%
Total Assets	908,702,150	811,946,635	11.92%
Related to Pensions	100,024	84,053	19.00%
Deferred Amount on Refunding	2,053,952	2,649,232	-22.47%
Total Deferred Outflows of Resources	2,153,976	2,733,285	-21.19%
Current Liabilities	34,129,838	31,408,915	8.66%
Noncurrent Liabilities	544,641,643	491,170,693	10.89%
Total Liabilities	578,771,481	522,579,608	10.75%
Related to Pensions	51,406	55,538	-7.44%
Deferred Amount on Refunding	3,001,580	3,372,909	-11.01%
Total Deferred Inflows of Resources	3,052,986	3,428,447	-10.95%
Net Position:			
Restricted For Pension Benefits	49,576	28,951	71.24%
Unrestricted	328,982,083	288,642,914	13.98%
Total Net Position	$ 329,031,659	$ 288,671,865	13.98%

CHANGES IN NET POSITION

	2026	2025	% Change
Loan Interest Income	$ 13,195,203	$ 9,026,854	46.18%
Other Income	3,349,425	2,772,600	20.80%
Total Operating Revenue	16,544,628	11,799,454	40.22%
Total Operating Expenses	(9,816,988)	(9,290,315)	5.67%
Operating Income (Loss)	6,727,640	2,509,139	168.13%
Federal Capitalization Grants	46,945,410	5,614,307	736.17%
Other Income	408,242	247,096	65.22%
Transfers In	25,000,000	-	100.00%
Transfers Out	(25,000,000)	-	100.00%
Total Noncapital Subsidies:	47,353,652	5,861,403	707.89%
Investment Income	5,863,107	8,472,691	-30.80%
Bond Issuance Costs	(346,900)	(731,074)	-52.55%
Interest Expense	(18,665,792)	(15,576,988)	19.83%
Arbitrage Expense	(571,913)	(975,713)	-41.39%
Other Expense	-	(216,729)	-100.00%
Total Other Nonoperating Rev (Exp)	(13,721,498)	(9,027,813)	51.99%
Increase (Decrease) in Fund Net Position	40,359,794	(657,271)	6,240.51%
Fund Net Position at Beginning of Year	288,671,865	289,329,136	-0.23%
Fund Net Position at End of Year	$ 329,031,659	$ 288,671,865	13.98%

DETAILED ANALYSES

FY26 program activity contributed to a $40.4 million increase in net position, bringing total net position to $329.0 million, up 13.98% from FY25. Total assets rose 11.92%, largely from increased loan balances funded by bond proceeds, capitalization grants, and recycled inflows, while liabilities increased 10.75% mainly due to the 2026AB Series bond issuance as noted in the long-term financing activity section below.

Operating revenue increased 40.22% to $16.5 million, driven largely by a 25.95% increase in loans receivable and the interest and fees associated with them. Operating expenses grew modestly by 5.67% to $9.8 million, resulting in operating income of $6.7 million—more than double the adjusted FY25 operating income of $2.5 million. The impact of GASB 103 is evident when comparing these results to last year's stated FY25 operating loss of $13.7 million.

Nonoperating activity experienced substantial shifts during the year. Federal capitalization grant revenue increased sharply up 736.17% to $46.9 million. This category can fluctuate significantly from year to year based on spend-down requirements and the timing of loan disbursements. Interest expense also rose by 19.83%. In addition, based on program demands and the need for taxable borrower purposes in the Drinking Water SRF, $25 million in taxable proceeds were transferred from the Clean Water SRF to the Drinking Water SRF, and $25 million in tax-exempt proceeds were transferred from the Drinking Water SRF to the Clean Water SRF. Overall, nonoperating activity resulted in a net expense of $13.7 million, compared to $9.0 million in FY25.

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

In FY26, the Fund issued the Series 2026AB Revenue Bonds with a par amount of $70.8 million and a premium of $6.0 million. Proceeds were used to expand lending capacity for future clean-water projects and to cover issuance-related costs. The Fund's bonds maintained the highest credit ratings—AAA from Standard & Poor's and Aaa from Moody's—reflecting strong financial management and stable program performance.

The new debt issuance contributed significantly to the 10.75% increase in total liabilities, rising to $578.8 million. The added leverage supported a 25.95% increase in loans receivable, which grew by $158.4 million and was funded by the bond proceeds, federal capitalization grants, and recycled repayments. These financing activities directly influenced a 11.92% increase in total assets and helped support the Fund's continued ability to meet statewide clean-water infrastructure needs.

More detailed information regarding long-term debt is included in Note 5, and subsequent events related to debt activity are provided in Note 11.

CURRENT KNOWN FACTS, DECISIONS, OR CONDITIONS

South Dakota continues to face demographic challenges, with many small rural communities and only two cities exceeding 50,000 residents. The Fund remains a critical resource for meeting statewide infrastructure needs. In FY26, the program obligated approximately $201.7 million to 32 projects, reflecting sustained demand for affordable financing.

As of June 30, 2026, the Clean Water SRF program reported loan commitments totaling $404.2 million, indicating a strong pipeline of future lending needs. To support this demand, on September 24, 2026, the South Dakota Board of Water and Natural Resources approved the issuance of Series 2026CD State Revolving Fund Program Bonds totaling approximately $180 million. The transaction is expected to close in mid-November 2026.

The bond structure provides significant new lending capacity:

- Series 2026C (Taxable) – Approximately $25 million for the Drinking Water Leveraged Loan Account, along with funds for issuance costs.

- Series 2026D (Tax-Exempt) – Approximately $125 million for the Clean Water Leveraged Loan Account, $30 million for the Drinking Water Leveraged Loan Account, and funds for issuance costs.

These issuances follow the FY26 Series 2026AB Revenue Bonds, which increased total liabilities by 10.75% and helped fund the 25.95% rise in loans receivable. The additional Series 2026CD borrowing will further enhance the Fund's ability to meet FY27 and FY28 project demand.

Looking ahead, management expects strong project demand to continue, supported by the new Series 2026CD bond proceeds, recycled loan repayments, ongoing federal capitalization grant awards, and stable borrower repayment performance. No unusual or infrequent transactions are currently known that would materially affect FY27 financial results.

SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2026

Assets		
Current Assets:		
Cash and Cash Equivalents		$ 110,908,890.81
Investments		22,526,102.40
Accounts Receivable:		
Due from Federal Government	192,575.61	
Due from Other Governments	766,335.65	
Accrued Interest Receivable	5,412,737.62	
Loans Receivable	35,563,395.96	
Total Accounts Receivable		41,935,044.84
Total Current Assets		175,370,038.05
Noncurrent Assets:		
Net Pension Assets		958.00
Loans Receivable		733,331,153.56
Total Noncurrent Assets		733,332,111.56
Total Assets		908,702,149.61
Deferred Outflows of Resources		
Related to Pensions		100,024.00
Deferred Charge on Refunding		2,053,952.10
Total Deferred Outflows of Resources		2,153,976.10
Liabilities		
Current Liabilities:		
Accounts Payable		154,133.63
Accrued Liabilities		29,657.75
Compensated Absences Payable		30,544.64
Accrued Interest Payable		9,969,604.90
Cost of Issuance Payable		45,759.87
Bonds Payable - net of unamortized premium and discount		23,900,136.85
Total Current Liabilities		34,129,837.64
Noncurrent Liabilities:		
Compensated Absences Payable		47,654.67
Arbitrage Payable		1,663,482.11
Bonds Payable - net of unamortized premium and discount		542,930,506.69
Total Noncurrent Liabilities		544,641,643.47
Total Liabilities		578,771,481.11
Deferred Inflows of Resources		
Related to Pensions		51,406.00
Deferred Charge on Refunding		3,001,579.66
Total Deferred Inflows of Resources		3,052,985.66
Net Position		
Restricted For Pension Obligations		49,576.00
Unrestricted		328,982,082.94
Total Net Position		$ 329,031,658.94

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, 2026

Operating Revenues:		
Loan Interest Income		$ 13,195,203.26
Other Income		3,349,424.60
Total Operating Revenues		16,544,627.86
Operating Expenses:		
Personal Services	377,108.76	
Employee Benefits	85,244.03	
Travel	9,391.08	
Contractual	735,529.62	
Supplies	1,300.54	
Grants	8,551,944.69	
Indirect Costs	54,326.28	
Other	2,142.68	
Total Operating Expenses		9,816,987.68
Operating Income (Loss)		6,727,640.18
Noncapital Subsidies:		
Federal Capitalization Grants		46,945,410.20
Other Subsidies		408,241.74
Transfers In		25,000,000.00
Transfers Out		(25,000,000.00)
Total Noncapital Subsidies		47,353,651.94
Operating Income (Loss) and Noncapital Subsidies		54,081,292.12
Other Nonoperating Revenue and Expenses:		
Investment Income		5,863,107.35
Bond Issuance Costs		(346,899.67)
Interest Expense		(18,665,792.13)
Arbitrage Expense		(571,913.49)
Total Other Nonoperating Revenues and Expenses		(13,721,497.94)
Increase (Decrease) in Fund Net Position		40,359,794.18
Fund Net Position at Beginning of Year		288,671,864.76
Fund Net Position at End of Year		$ 329,031,658.94

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, 2026

Cash Flows from Operating Activities:		
Payments for Employee Services	$ (492,079.21)	
Payments for Contractual Services	(711,179.76)	
Payment for Grants	(2,291,695.15)	
Payments for Principal Forgiveness	(6,197,286.00)	
Payments to State	(54,326.28)	
Other Payments	(3,308.14)	
Net Cash Provided (Used) by Operating Activities		(9,749,874.54)
Cash Flows from Noncapital Financing Activities:		
Contributions and Grants from the Federal Government	46,940,199.00	
Transfer In	25,000,000.00	
Other Subsidies	519,491.92	
Principal Payments on Bonds	(18,475,000.00)	
Interest Payments on Bonds	(20,616,134.10)	
Bond Issuance Costs	(361,263.80)	
Bond Proceeds	76,848,463.45	
Net Cash Provided (Used) by Noncapital Financing Activities		109,855,756.47
Cash Flows from Investing Activities:		
Receipts for Loan Repayments	30,731,281.45	
Payments to Loan Recipients	(189,140,522.00)	
Receipts for Interest Income on Loans	11,851,246.45	
Receipts for Surcharge Interest on Loans	3,201,802.30	
Abritrage Payment	(652,584.81)	
Interest on Investments	6,669,342.84	
Proceeds from Sale of Investment Securities	43,253,917.13	
Purchase of Investment Securities	(6,681,160.82)	
Net Cash Provided (Used) by Investing Activities		(100,766,677.46)
Net Increase (Decrease) in Cash and Cash Equivalents		(660,795.53)
Cash and Cash Equivalents at Beginning of Year		111,569,686.34
Cash and Cash Equivalents at End of Year		$ 110,908,890.81
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		$ 6,727,640.18
Adjustments to Reconcile Operating Income (Loss)		
Interest Income on Loans	(13,195,203.26)	
Surcharge Income on Loans	(3,201,802.30)	
Decrease/(Increase) in Assets:		
Due from Other Governments	(147,622.30)	
Net Pension Assets	(522.00)	
Decrease/(Increase) in Deferred Outflows of Resources:		
Deferred Outflows of Resources - Related to Pensions	(15,971.00)	
Increase/(Decrease) in Liabilities:		
Accounts Payable	87,024.29	
Accrued Liabilities	(1,738.44)	
Accrued Employee Benefits	2,452.29	
Increase/(Decrease) in Deferred Inflows of Resources:		
Deferred Inflows of Resources - Related to Pensions	(4,132.00)	
Total Adjustments		(16,477,514.72)
Net Cash Provided by Operations		$ (9,749,874.54)

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, 2026

Note 1 - Organization

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 state provides matching funds equal to one dollar for every five dollars of federal capitalization grants.

Note 2 - Summary of Significant Accounting Policies

For the fiscal year ended June 30, 2026, the South Dakota Conservancy District implemented GASB Statement No. 103, Financial Reporting Model Improvements. This GASB standard establishes uniform guidelines for distinguishing operating vs. nonoperating categories and introduces a distinct subtotal and section for ‘noncapital subsidies’ presented on the Statement of Revenues, Expenses, and Changes in Fund Net Position. The standard also refines the MD&A strictly to five required sections that focus on targeted content and analysis in a more accessible narrative.

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.

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.

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.

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.

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.

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 personal services and grants, and contractual service expenses related to the administration of the CWSRF program.

Federal Capitalization Grant
Federal capitalization grant contributions are reported as noncapital subsidies in the Statement of Revenues, Expenses, and Changes in Fund Net Position which 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:	$ 46,223,339
Administrative Expense:	$ 624,170

Net Position
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.

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. CWSRF contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

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 of 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 or resources until the applicable future period.

Note 3 – Cash and Investments

Cash
Cash and Cash Equivalents at the end of FY26 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 June 30, 2026, had a total annualized return of 3.82%.

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, 2026, $22,526,102 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	8/01/2026	$ 22,526,102

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:

Moody's Rating	Contract Value
Baa1*	$ 22,526,102

* 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.

Note 4 – 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, 2026, the loan receivable amount for the CWSRF program is $768,894,549.

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, 2026, 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.

Note 5 - Long-Term Debt

On March 31, 2026, the South Dakota Conservancy District issued $1,455,000 in Taxable Revenue Bonds, Series 2026A, and issued $69,360,000 Tax-exempt Revenue Bonds, Series 2026B. The bond proceeds provided $76,500,000 to be loaned to borrowers and provided additional funds to pay associated costs of issuance.

The following is a summary of the sources and uses for the CWSRF fiscal year 2026 Bond Issue:

Sources:	Series 2026A (Taxable)	Series 2026B (Tax-Exempt)	Total
Bond Proceeds (Par)	$ 1,455,000	$ 69,360,000	$ 70,815,000
Premium	55,602	5,977,862	6,033,464
Total Sources of Funds	$ 1,510,602	$ 75,337,862	$ 76,848,464
Uses:			
Deposit to Loan Fund	$ 1,500,000	$ 75,000,000	$ 76,500,000
Cost of Issuance	6,281	181,802	188,083
Underwriter's Discount	4,321	156,060	160,381
Total Uses of Funds	$ 1,510,602	$ 75,337,862	$ 76,848,464

The revenue bond issues outstanding as of June 30, 2026, are as follows:

Issue	Interest Rate	Maturity Through FY	Principal Balance
Series 2010AB			
Build America Bonds (BABs)			
State Match	5.646%	2031	$ 770,000
Leveraged	5.646%	2031	7,345,000
Tax Exempt Bonds			
State Match	5.125%	2030	178,544
Leveraged	5.125%	2030	1,785,441

Issue	Interest Rate	Maturity Through FY	Principal Balance
Series 2012A			
Taxable Bonds			
State Match	3.183%	2027	110,000
Leveraged	3.183%	2027	1,875,000
Series 2012B			
Tax Exempt Bonds			
Leveraged	3.000-5.000%	2031	2,950,000
Series 2017B			
Tax Exempt Bonds			
State Match	5.000%	2030	685,000
Leveraged	5.000%	2038	46,725,000
Series 2018			
Tax Exempt Bonds			
Leveraged	5.000%	2039	43,675,000
Series 2020			
Tax Exempt Bonds			
Leveraged	5.000%	2043	68,595,000
Series 2022A			
Taxable Bonds			
State Match	4.500%-4.790%	2029	6,290,000
Series 2022B			
Tax Exempt Bonds			
Leveraged	5.000%	2047	64,415,000
Series 2024A			
Tax Exempt Bonds			
Leveraged	5.000%	2055	106,950,000
Series 2025A			
Tax Exempt Bonds			
Leveraged	5.000%	2056	79,835,000
Series 2026A			
Taxable Bonds			
State Match	5.000%	2032	1,455,000
Series 2026B			
Tax Exempt Bonds			
Leveraged	5.000%	2057	69,360,000
Total			502,998,985
Add: Unamortized Bond Premium			63,831,659
Total Net of Amortization			$ 566,830,644

Future bond payments and future interest payments remaining as of June 30, 2026, are as follows:

Year Ended June 30	Principal	Interest	Total Principal and Interest
2027	$ 19,802,861	$ 24,029,044	$ 43,831,905
2028	19,980,284	23,628,985	43,609,269
2029	20,520,090	22,618,374	43,138,464
2030	21,305,750	21,586,657	42,892,407
2031	22,280,000	20,507,200	42,787,200
2032-2036	104,235,000	86,529,725	190,764,725
2037-2041	93,485,000	61,394,625	154,879,625
2042-2046	76,635,000	40,218,125	116,853,125
2047-2051	63,020,000	23,105,250	86,125,250
2052-2056	57,440,000	7,596,250	65,036,250
2057-2061	4,295,000	107,375	4,402,375
TOTAL	$ 502,998,985	$ 331,321,610	$ 834,320,595

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	$ 450,658,985	$ 70,815,000	$(18,475,000)	$ 502,998,985	$ 19,802,861
Add: Bond Premium	61,739,848	6,033,463	(3,941,652)	63,831,659	4,097,276
Total	512,398,833	76,848,463	(22,416,652)	566,830,644	23,900,137
Compensated Absences	$75,747	2,452		78,199	$30,545
Long-Term Liabilities	$ 512,474,580	$ 76,850,915	$ (22,416,652)	$ 566,908,843	$ 23,930,682

Note 6 - Commitments

As of June 30, 2026, the CWSRF program had loan commitments with borrowers worth $404,171,858.

Note 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, 2026, 2025, and 2024, and were $20,514, $20,112 and $18,120 respectively, equal to the required contributions each year.

The net pension asset was measured as of June 30, 2026, and the estimated SDRS was 100% funded. On June 30, 2026, CWSRF reported an asset of $958 for its proportionate share of the net pension asset. On June 30, 2026, 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	$ 32,801	$ -
Changes in assumption	-	50,854
Net difference between projected and actual earnings on pension plan investments	46,679	-
Changes in Proportionate Share	30	552
Contributions after the measurement date	20,514	-
Total	$ 100,024	$ 51,406

Note 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.

Note 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, 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 related to the self-insurance funds administered by the state is presented in the South Dakota Annual Comprehensive Financial Report.

Note 10 - Transfer

The Safe Drinking Water Act Amendments of 1996 and subsequent Congressional action allow states to transfer an amount equal to 33 percent of their Drinking Water SRF (DWSRF) capitalization grant to the CWSRF or an equivalent amount from the CWSRF to the DWSRF. States can also transfer state match, investment earnings, or principal and interest repayments between SRF programs at any time.

Based on program demands and the need for taxable borrower purposes in the DWSRF, $25 million taxable proceeds were transferred from the CWSRF to the DWSRF, and $25 million of tax-exempt proceeds were transferred from the DWSRF to the CWSRF.

Note 11 - Subsequential Event

On September 24, 2026, the South Dakota Conservancy District approved to issue State Revolving Fund Program Bonds, Series 2026CD totaling approximately $180 million. The Series 2026C Bonds are proposed taxable bonds being issued to provide funds sufficient, together with other available moneys, 1) to provide funds in the approximate amount of $25 million to be deposited to the Drinking Water Leveraged Loan Account, with respect to the Series 2026C Bonds which are to be loaned to Borrowers, and 2) to provide funds to pay associated costs of issuance. The Series 2026D Bonds are proposed tax-exempt bonds being issued to provide funds sufficient, together with other available moneys, 1) to provide funds in approximate amount of $125 million to be deposited to the Clean Water Leveraged Loan Account, 2) to provide funds in approximate amount of $30 million Drinking Water Leveraged Loan Account, with respect to the Series 2026D Bonds which are to be loaned to Borrowers, and 3) to provide funds to pay associated costs of issuance. The transaction is expected to close mid-November 2026.

SCHEDULE OF THE CLEAN WATER STATE REVOLVING FUND CONTRIBUTIONS

as of June 30, 2026

South Dakota Retirement System

Last 10 Fiscal Years

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	$ 20,514	$ 20,112	$ 18,120	$ 16,775	$ 14,174	$ 14,895	$ 17,696	$ 17,871	$ 19,155	$ 17,741
Contributions in relation to the contractually required contribution	$ 20,514	$ 20,112	$ 18,120	$ 16,775	$ 14,174	$ 14,895	$ 17,696	$ 17,871	$ 19,155	$ 17,741
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fund's covered-employee payroll	$ 346,206	$ 335,197	$ 302,808	$ 280,245	$ 261,972	$ 271,924	$ 260,374	$ 265,997	$ 291,839	$ 273,068
Contributions as a percentage of covered-employee payroll	5.93%	6.00%	5.98%	5.99%	5.41%	5.48%	6.80%	6.72%	6.56%	6.50%

The amounts presented for the fund's covered-employee payroll for fiscal years 2022 through 2025 have been recalculated resulting in amended amounts being shown in the FY2026 schedule when compared to the previous year. This also resulted in the calculation of the contributions as a percentage of covered-employee payroll being amended.

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

as of June 30, 2026

South Dakota Retirement System

Last 10 Fiscal Years *

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Fund's proportion of the net pension liability (asset)	0.05246%	0.04993%	0.05263%	0.04813%	0.05351%	0.05542%	0.05791%	0.06294%	0.05888%	0.0623%
Fund's proportionate share of net pension liability (asset)	$ (958)	$ (436)	$ (1,058)	$ (935)	$ (83,788)	$ (497)	$ (1,272)	$ (308)	$ (1,153)	$ 46,888
Fund's covered-employee payroll	$ 335,197	$ 302,808	$ 280,245	$ 261,972	$ 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	-0.29%	-0.14%	-0.38%	-0.36%	-30.81%	-0.19%	-0.48%	-0.11%	-0.42%	17.36%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100%	100%	100%	100%	100%	100%	100%	100%	100%	97%

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