SOUTH DAKOTA BOARD OF WATER AND NATURAL RESOURCES DRINKING 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
DRINKING 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 Drinking 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 Drinking 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 Drinking 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 Drinking 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 Drinking 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 Drinking 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 Drinking 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 South Dakota Board of Water and Natural Resources' 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 21-22, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 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
DRINKING WATER STATE REVOLVING FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Dakota Board of Water and Natural Resources Drinking Water State Revolving Fund's (Fund) financial report presents a narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 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	$ 184,512,070	$ 197,235,092	-6.45%
Noncurrent Assets	608,094,466	416,975,038	45.83%
Total Assets	792,606,536	614,210,130	29.04%
Related to Pensions	156,848	134,830	16.33%
Deferred Amount on Refunding	182,323	283,998	-35.80%
Total Deferred Outflows of Resources	339,171	418,828	-19.02%
Current Liabilities	19,023,261	15,096,380	26.01%
Noncurrent Liabilities	440,939,974	318,100,954	38.62%
Total Liabilities	459,963,235	333,197,334	38.05%
Related to Pensions	80,617	89,715	-10.14%
Deferred Amount on Refunding	395,146	444,030	-11.01%
Total Deferred Inflows of Resources	475,763	533,745	-10.86%
Net Position:			
Restricted For Pension Benefits	77,733	45,819	69.65%
Unrestricted	332,428,975	280,852,060	18.36%
Total Net Position	$ 332,506,708	$ 280,897,879	18.37%

CHANGE IN NET POSITION

	2026	2025	% Change
Loan Interest Income	$ 10,346,535	$ 6,282,857	64.68%
Other Income	1,892,849	1,381,717	36.99%
Total Operating Revenue	12,239,384	7,664,574	59.69%
Total Operating Expenses	(19,028,007)	(12,791,765)	48.75%
Operating Income (Loss)	(6,788,623)	(5,127,191)	32.40%
Federal Capitalization Grants	69,269,006	43,541,365	59.09%
Other Income	198,424	120,104	65.21%
Transfers In	25,000,000	-	100.00%
Transfers Out	(25,000,000)	-	100.00%
Total Noncapital Subsidies:	69,467,430	43,661,469	59.10%
Investment Income	4,948,775	4,826,530	2.53%
Bond Issuance Costs	(611,759)	(630,229)	-2.93%
Interest Expense	(15,091,163)	(9,063,910)	66.50%
Arbitrage Expense	(315,831)	(152,779)	106.72%
Other Expense	-	(105,449)	-100.00%
Total Other Non-Operating Rev (Exp)	(11,069,978)	(5,125,837)	115.96%
Increase (Decrease) in Fund Net Position	51,608,829	33,408,441	54.48%
Fund Net Position at Beginning of Year	280,897,879	247,489,438	13.50%
Fund Net Position at End of Year	$ 332,506,708	$ 280,897,879	18.37%

DETAILED ANALYSES

FY26 program activity contributed to a $51.6 million increase in net position, bringing total net position to $332.5 million, up 18.37% from FY25. Total assets rose 29.04%, largely from increased loan balances funded by bond proceeds, capitalization grants, and recycled inflows, while liabilities increased 38.05% mainly due to the 2026AB Series bond issuance as noted in the long-term financing activity section below.

Operating revenue increased 59.69% to $12.2 million, primarily driven by a 46.02% increase in loans receivable and the interest and fees associated with them. Operating expenses increased by 48.75%, to $19 million, resulting in an operating loss of $6.7 million. The impact of GASB 103 is evident in this year's results when comparing last year's stated FY25 operating loss of $14.7 million to the new adjusted operating loss of $5.1 million.

Noncapital subsidies reflect a large increase in federal capitalization grants up 59.09% to $69.2 million. This category can fluctuate significantly from year to year based on spend-down requirements and the timing of loan disbursements. Nonoperating interest expense was up 66.50% to $15.1 million. 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. The Fund's nonoperating activity totaled a net expense of $11.0 million, compared to $5.1 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 $124.5 million and a premium of $8.6 million. Proceeds were used to expand lending capacity for future drinking-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 38.05% increase in total liabilities, rising to $459.9 million. The added leverage supported a 46.02% increase in loans receivable, which grew by $197.1 million and was funded by the bond proceeds, federal capitalization grants, and recycled repayments. These financing activities directly influenced a 29.04% increase in total assets and helped support the Fund's continued ability to meet statewide drinking-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 $57.8 million to 19 projects, reflecting sustained demand for affordable financing.

As of June 30, 2026, the Fund reported loan commitments totaling $332.6 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 38.05% and helped fund the 46.02% 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, 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
DRINKING WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2026

Assets		
Current Assets:		
Cash and Cash Equivalents		$ 133,453,009.46
Investments		28,764,672.42
Accounts Receivable:		
Due from Federal Government	364,550.77	
Due from Other Governments	506,303.21	
Accrued Interest Receivable	3,961,713.57	
Loans Receivable	17,461,820.96	
Total Accounts Receivable		22,294,388.51
Total Current Assets		184,512,070.39
Noncurrent Assets:		
Net Pension Assets		1,502.00
Loans Receivable		608,092,964.20
Total Noncurrent Assets		608,094,466.20
Total Assets		792,606,536.59
Deferred Outflows of Resources		
Related to Pensions		156,848.00
Deferred Charge on Refunding		182,322.53
Total Deferred Outflows of Resources		339,170.53
Liabilities		
Current Liabilities:		
Accounts Payable		408,683.68
Accrued Liabilities		45,353.28
Compensated Absences Payable		54,028.52
Accrued Interest Payable		7,923,846.25
Costs of Issuance Payable		72,454.13
Bonds Payable - net of unamortized premium and discount		10,518,895.35
Total Current Liabilities		19,023,261.21
Noncurrent Liabilities:		
Compensated Absences Payable		84,293.34
Arbitrage Payable		1,307,760.69
Bonds Payable - net of unamortized premium and discount		439,547,920.45
Total Noncurrent Liabilities		440,939,974.48
Total Liabilities		459,963,235.69
Deferred Inflows of Resources		
Related to Pensions		80,617.00
Deferred Charge on Refunding		395,145.88
Total Deferred Inflows of Resources		475,762.88
Net Position		
Restricted For Pension Obligations		77,733.00
Unrestricted		332,428,975.55
Total Net Position		$ 332,506,708.55

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

SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended June 30, 2026

Operating Revenues:		
Loan Interest Income		$ 10,346,534.57
Other Income		1,892,849.31
Total Operating Revenues		12,239,383.88
Operating Expenses:		
Personal Services	573,674.94	
Employee Benefits	140,943.99	
Travel	10,442.18	
Contractual	1,085,858.37	
Supplies	1,616.55	
Grants	17,130,794.61	
Indirect Costs	82,586.82	
Other	2,090.02	
Total Operating Expenses		19,028,007.48
Operating Income (Loss)		(6,788,623.60)
Noncapital Subsidies:		
Federal Capitalization Grants		69,269,006.51
Other Subsidies		198,423.84
Transfers In		25,000,000.00
Transfers Out		(25,000,000.00)
Total Noncapital Subsidies		69,467,430.35
Operating Income (Loss) and Noncapital Subsidies		62,678,806.75
Other Nonoperating Revenue and Expenses:		
Investment Income		4,948,774.60
Bond Issuance Costs		(611,758.47)
Interest Expense		(15,091,163.14)
Arbitrage Expense		(315,830.56)
Total Other Nonoperating Revenues and Expenses		(11,069,977.57)
Increase (Decrease) in Fund Net Position		51,608,829.18
Fund Net Position at Beginning of Year		280,897,879.37
Fund Net Position at End of Year		$ 332,506,708.55

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

SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2026

Cash Flows from Operating Activities:		
Payments for Employee Services	$ (747,103.04)	
Payments for Contractual Services	(1,000,643.73)	
Payment for Grants	(2,702,761.82)	
Payments for Principal Forgiveness	(14,851,077.00)	
Payments to State	(82,586.82)	
Other Payments	(3,465.05)	
Net Cash Provided (Used) by Operating Activities		(19,387,637.46)
Cash Flows from Noncapital Financing Activities:		
Contributions and Grants from the Federal Government	69,218,523.00	
Transfer Out	(25,000,000.00)	
Other Subsidies	252,468.69	
Principal Payments on Bonds	(8,335,000.00)	
Interest Payments on Bonds	(13,022,630.27)	
Bond Issuance Costs	(629,180.34)	
Bond Proceeds	133,114,467.70	
Net Cash Provided (Used) by Noncapital Financing Activities		155,598,648.78
Cash Flows from Investing Activities:		
Receipts for Loan Repayments	14,064,093.24	
Payments to Loan Recipients	(211,205,705.00)	
Receipts for Interest Income on Loans	8,803,713.95	
Receipts for Surcharge Interest on Loans	1,731,907.36	
Interest on Investments	5,724,190.62	
Proceeds from Sale of Investment Securities	33,584,679.12	
Purchase of Investment Securities	(1,513,472.52)	
Net Cash Provided (Used) by Investing Activities		(148,810,593.23)
Net Increase (Decrease) in Cash and Cash Equivalents		(12,599,581.91)
Cash and Cash Equivalents at Beginning of Year		146,052,591.37
Cash and Cash Equivalents at End of Year		$ 133,453,009.46
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		$ (6,788,623.60)
Adjustments to Reconcile Operating Income (Loss)		
Interest Income on Loans	(10,346,534.57)	
Surcharge Income on Loans	(1,731,907.36)	
Decrease/(Increase) in Assets:		
Due from Other Governments	(160,941.95)	
Net Pension Assets	(798.00)	
Decrease/(Increase) in Deferred Outflows of Resources:		
Deferred Outflows of Resources - Related to Pensions	(22,018.00)	
Increase/(Decrease) in Liabilities:		
Accounts Payable	(338,205.73)	
Accrued Liabilities	12,498.66	
Accrued Employee Benefits	(2,008.91)	
Increase/(Decrease) in Deferred Inflows of Resources:		
Deferred Inflows of Resources - Related to Pensions	(9,098.00)	
Total Adjustments		(12,599,013.86)
Net Cash Provided by Operations		$ (19,387,637.46)

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

SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2026

Note 1 - Organization

The Drinking Water State Revolving Fund (DWSRF) Loan Program was federally authorized by the Safe Drinking Water Act Amendments of 1996. The State authorized the loan program in 1994 in anticipation of federal action. The Environmental Protection Agency (EPA) developed final guidance for the Drinking Water State Revolving Fund on February 28, 1997. The Board of Water and Natural Resources, acting in its capacity as the South Dakota Conservancy District, conducted a public hearing on April 15, 1997, to adopt formal administrative rules for the program. The South Dakota Conservancy District (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 DWSRF is a low interest loan program to finance drinking water projects. Funds are provided to the states in the form of capitalization grants awarded annually through the United States Environmental Protection Agency. The 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 DWSRF is accounted for as an enterprise fund. An enterprise fund is a proprietary fund type used to report an activity for which a fee is charged to external users for goods or services.

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

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 non-participating and, therefore, are recorded at carrying value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

Premium and Deferred Amount on Refunding
Premiums and the deferred amount on 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 DWSRF records all revenues derived from interest on loans as operating revenues since these revenues are generated from the DWSRF's daily operations needed to carry out its purpose. Operating expenses include personal services, grants, and contractual service expenses related to the administration of the DWSRF 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:	66.468
Federal Agency:	Environmental Protection Agency
Program:	Drinking Water State Revolving Fund
State Agency:	Agriculture & Natural Resources
Current Year Contributions	
Loan Disbursement:	$ 67,881,123
Administrative Expense:	$ 955,331

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

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 6/30/26 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 Drinking Water State Revolving Fund's investments may not be returned. As of June 30, 2026, $28,764,672 of guaranteed investment contracts were uninsured and unregistered, with the securities held by its trust department, but not in the DWSRF's name and, as a result, were exposed to custodial credit risk.

Guaranteed Investment Contracts (GICS):

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

	Maturities	Contract Value
Guaranteed Investment Contract	8/01/2026	$ 28,764,672

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*	$ 28,764,672

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

Note 4 - Loans Receivable

Loans receivable consist of loans made to local governments and nonprofit corporations 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 DWSRF may be made at or below market interest rates and may be fully amortized up to thirty years. Disadvantaged communities may be eligible for lower rates or even zero percent, and may be fully amortized up to thirty years. Interest rates are reduced for those loans with shorter amortization periods. As of June 30, 2026, the loan receivable amount for the DWSRF program is $625,554,785.

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 $7,265,000 in Taxable Revenue Bonds, Series 2026A, and issued $117,225,000 Tax-exempt Revenue Bonds, Series 2026B. The bond proceeds provided $132,500,000 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 DWSRF fiscal year 2026 Bond Issue:

Sources:	Series 2026A (Taxable)	Series 2026B (Tax-Exempt)	Total
Bond Proceeds (Par)	$ 7,265,000	$ 117,225,000	$ 124,490,000
Premium	277,740	8,346,728	8,624,468
Total Sources of Funds	$ 7,542,740	$ 125,571,728	$ 133,114,468
Uses:			
Deposit to Loan Fund	$ 7,500,000	$ 125,000,000	$ 132,500,000
Cost of Issuance	21,165	307,972	329,137
Underwriter's Discount	21,575	263,756	285,331
Total Uses of Funds	$ 7,542,740	$ 125,571,728	$ 133,114,468

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)			
Leveraged	5.646%	2031	$ 3,935,000
Tax Exempt Bonds			
State Match	5.125%	2030	439,493
Leveraged	5.125%	2030	1,171,522
Series 2012A			
Taxable Bonds			
State Match	3.183%	2027	115,000

Issue	Interest Rate	Maturity Through FY	Principal Balance
Leveraged	3.183%	2027	355,000
Series 2017B			
Tax Exempt Bonds			
State Match	5.000%	2030	1,035,000
Leveraged	5.000%	2038	9,300,000
Series 2018			
Tax Exempt Bonds			
Leveraged	5.000%	2039	29,785,000
Series 2022A			
Taxable Bonds			
State Match	4.500% - 4.790%	2029	10,560,000
Leveraged	4.500% - 5.360%	2047	37,290,000
Series 2022B			
Tax Exempt Bonds			
Leveraged	5.000%	2047	31,050,000
Series 2024A			
Tax Exempt Bonds			
Leveraged	5.000%	2055	53,500,000
Series 2025A			
Tax Exempt Bonds			
Leveraged	5.000%	2056	117,370,000
Series 2026A			
Taxable Bonds			
State Match	5.000%	2057	7,265,000
Series 2026B			
Tax Exempt Bonds			
Leveraged	5.000%	2057	117,225,000
Total			420,396,015
Add: Unamortized Premium			29,670,800
Total Net of Amortization			$ 450,066,815

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	$ 9,037,139	$ 19,821,805	$ 28,858,944
2028	10,304,716	20,372,236	30,676,952
2029	10,814,910	19,850,757	30,665,667
2030	11,349,250	19,300,873	30,650,123
2031	10,865,000	18,745,322	29,610,322
2032-2036	50,195,000	86,131,535	136,326,535
2037-2041	59,790,000	72,635,737	132,425,737
2042-2046	78,170,000	55,313,870	133,483,870
2047-2051	82,460,000	34,357,882	116,817,882
2052-2056	87,860,000	13,255,750	101,115,750
2057-2061	9,550,000	238,750	9,788,750
TOTAL	$ 420,396,015	$ 360,024,517	$ 780,420,532

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	$ 304,241,015	$ 124,490,000	$ (8,335,000)	$ 420,396,015	$ 9,037,139
Add: Bond Premium	22,282,656	8,624,467	(1,236,323)	29,670,800	1,481,756
Total	326,523,671	133,114,467	(9,571,323)	450,066,815	10,518,895
Compensated Absences	125,823	12,499		138,322	54,029
Long-Term Liabilities	$ 326,649,494	$ 133,126,966	$ (9,571,323)	$ 450,205,137	$ 10,572,924

Note 6 - Commitments

As of June 30, 2026, the DWSRF program had loan commitments with borrowers worth $332,588,287.

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, were $32,156, $31,540, and $29,271 respectively, equal to the required contributions each year.

The net pension liability was measured as of June 30, 2026, and the estimated SDRS is 100% funded. On June 30, 2026, the DWSRF reported an asset of $1,502 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	$ 51,440	$ -
Changes in assumption	-	79,752
Net difference between projected and actual earnings on pension plan investments	73,204	-
Changes in Proportionate Share	48	865
Contributions after the measurement date	32,156	-
Total	$ 156,848	$ 80,617

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 DWSRF capitalization grant to the Clean Water SRF (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 DRINKING 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	$ 32,156	$ 31,540	$ 29,271	$ 25,167	$ 23,220	$ 24,993	$ 27,801	$ 34,407	$ 33,400	$ 38,850
Contributions in relation to the contractually required contribution	$ 32,156	$ 31,540	$ 29,271	$ 25,167	$ 23,220	$ 24,993	$ 27,801	$ 34,407	$ 33,400	$ 38,850
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fund's covered-employee payroll	$ 537,131	$ 526,074	$ 488,685	$ 428,585	$ 391,974	$ 402,709	$ 408,429	$ 503,024	$ 500,969	$ 584,839
Contributions as a percentage of covered-employee payroll	5.99%	6.00%	5.99%	5.87%	5.92%	6.21%	6.81%	6.84%	6.67%	6.64%

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 DRINKING 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)	0.08228%	0.08066%	0.07895%	0.07880%	0.08979%	0.87014%	0.09546%	0.09431%	0.13000%	0.05522%
Funds's proportionate share of net pension liability (asset)	$ (1,502)	$ (704)	$ (1,588)	$ (1,532)	$ (140,593)	$ (781)	$ (2,097)	$ (463)	$ (2,059)	$ 41,551
Fund's covered-employee payroll	$ 526,074	$ 488,685	$ 428,585	$ 391,974	$ 402,709	$ 408,429	$ 503,024	$ 500,969	$ 584,839	$ 241,482
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-0.29%	-0.14%	-0.37%	-0.39%	-34.91%	-0.19%	-0.42%	-0.09%	-0.35%	17.21%
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.