



**DEPARTMENT OF AGRICULTURE AND
NATURAL RESOURCES**
JOE FOSS BUILDING
523 E Capitol Ave
Pierre, SD

September 28, 2021

To whom it may concern:

Attached are the draft financial statements for Item 11, Legislative Bond Review Report, to be inserted starting on page 11 of the report. They were not included in the original board packet for the meeting of September 30th, 2021.

Environmental Funding Program
Department of Agriculture and Natural Resources

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2020**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 109,938,325.50
Investments	73,822,259.62
Due from Federal Government	525,833.81
Due from Other Governments	591,674.31
Accrued Interest Receivable	3,582,444.32
Loans Receivable	21,870,882.66
Total Current Assets	<u>210,331,420.22</u>

Noncurrent Assets:

Investments	88,287,863.45
Net Pension Assets	497.00
Loans Receivable	303,077,898.79
Total Noncurrent Assets	<u>391,366,259.24</u>

Total Assets	<u>601,697,679.46</u>
---------------------	-----------------------

Deferred Outflows of Resources

Related to Pensions	80,298.00
Deferred Charge on Refunding	5,062,101.32
Total Deferred Outflows of Resources	<u>5,142,399.32</u>

Liabilities

Current Liabilities:

Accounts Payable	703,949.24
Accrued Liabilities	7,369.55
Compensated Absences Payable	8,143.72
Accrued Interest Payable	5,651,042.56
Cost of Issuance Payable	0.00
Bonds Payable - net of unamortized premium and discount	17,955,857.92
Total Current Liabilities	<u>24,326,362.99</u>

Noncurrent Liabilities:

Compensated Absences Payable	7,204.42
Arbitrage Payable	0.00
Bonds Payable - net of unamortized premium and discount	317,257,860.87
Total Noncurrent Liabilities	<u>317,265,065.29</u>

Total Liabilities	<u>341,591,428.28</u>
--------------------------	-----------------------

Deferred Inflows of Resources

Related to Pensions	64,940.00
Total Deferred Inflows of Resources	<u>64,940.00</u>

Net Position

Restricted For Pension Obligations	15,855.00
Unrestricted	265,167,855.50

Total Net Position	<u>\$ 265,183,710.50</u>
---------------------------	--------------------------

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended June 30, 2020**

Operating Revenues:

Loan Interest Income	\$ 5,847,888.83
Other Income	1,824,618.99
Total Operating Revenues	<u>7,672,507.82</u>

Operating Expenses:

Administrative Expenses		
Personal Services	271,924.18	
Employee Benefits	56,836.45	
Travel	5,091.38	
Contractual	449,816.27	
Supplies	430.16	
Grants	1,786,205.96	
Other	158.90	
Total Administrative Expenses		2,570,463.30
Loan Principal Forgiveness Expense		4,316,255.00
Bond Issuance Costs		278,659.70
Interest Expense		10,945,617.04
Total Operating Expenses		<u>18,110,995.04</u>

Operating Income (Loss)	(10,438,487.22)
-------------------------	-----------------

Nonoperating Revenue (Expenses):

Federal Capitalization Grants	10,940,149.70
Other Income	425,340.64
Investment Income	4,131,657.67
Arbitrage Expense	34,371.28
Payments to State	(36,387.66)
Total Nonoperating Revenues (Expenses)	<u>15,495,131.63</u>

Change in Net Position	5,056,644.41
------------------------	--------------

Net Position at Beginning of Year	<u>260,127,066.09</u>
-----------------------------------	-----------------------

Net Position at End of Year	<u><u>\$ 265,183,710.50</u></u>
------------------------------------	---------------------------------

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2020**

Cash Flows from Operating Activities:

Receipts for Loan Repayments	\$ 36,400,221.83	
Receipts for Interest Income on Loans	5,543,472.65	
Receipts for Surcharge Interest on Loans	1,657,608.47	
Payments to Loan Recipients	(62,898,186.00)	
Payments for Employee Services	(360,306.87)	
Payments for Contractual Services	(422,898.17)	
Payment for Grants	(1,270,629.49)	
Payments for Principal Forgiveness	(4,316,255.00)	
Other Payments	(589.06)	
Net Cash Provided (Used) by Operating Activities		(25,667,561.64)

Cash Flows from Noncapital Financing Activities:

Payments to State	(36,387.66)	
Principal Payments on Bonds	(13,115,000.00)	
Interest Payments on Bonds	(12,205,064.32)	
Bond Issuance Costs	4,289.21	
Bond Proceeds	100,000,000.00	
Receipts for Administering Program	10,975,355.00	
Other Income	215,163.24	
Net Cash Provided (Used) by Noncapital Financing Activities		85,838,355.47

Cash Flows from Investing Activities:

Interest on Investments	4,720,749.06	
Proceeds from Sale of Investment Securities	130,689,659.51	
Purchase of Investment Securities	(191,266,682.11)	
Net Cash Provided (Used) by Investing Activities		(55,856,273.54)

Net Increase (Decrease) in Cash and Cash Equivalents 4,314,520.29

Cash and Cash Equivalents at Beginning of Year 105,623,805.21
Cash and Cash Equivalents at End of Year \$ 109,938,325.50

Reconciliation of Operating Income to Net

Cash Provided (Used) by Operating Activities

Operating Income (Loss) \$ (10,438,487.22)

Adjustments to Reconcile Net Income to Net Cash

Provided (Used) by Operating Activities:

Interest Expense 10,945,617.04
Bond Issuance Expense 278,659.70

Assets: (Increase)/Decrease

Loans Receivable (26,497,964.17)
Accrued Interest Receivable on Loans (304,416.18)
Due from Other Governments (167,010.52)
Net Pension Assets 775.00

Decrease/(Increase) in Deferred Outflows of Resources:

Deferred Outflows of Resources - Related to Pensions (13,960.00)

Liabilities: Increase/(Decrease)

Accounts Payable 543,152.66
Accrued Employee Benefits (42,407.01)
Accrued Liabilities (10,542.94)

Increase/(Decrease) in Deferred Inflows of Resources:

Deferred Inflows of Resources - Related to Pensions 39,022.00
Total Adjustments (15,229,074.42)
Net Cash Provided by Operations \$ (25,667,561.64)

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authorizing Legislation

The 1988 South Dakota Legislature authorized the State Water Pollution Control Revolving Loan Fund Program, also known as the Clean Water State Revolving Fund (CWSRF) Loan Program. Additionally, the legislature appropriated \$1,200,000 and directed the South Dakota Conservancy District (SDCD) to administer the program. The SDCD was created by the Legislature under Chapter 46A-2 of the South Dakota Codified Law as a body politic and corporate for the purpose of constructing water resource facilities for the conservation, storage, distribution and utilization of water for municipal purposes within the State of South Dakota. The SDCD bonds do not constitute a debt of the State of South Dakota, or a pledge of the faith and credit of the State. Because the State of South Dakota is able to impose its will over the SDCD and the governing body is substantively the same as the governing body of the primary government, it is considered a blended component unit and, as such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota. The Department of Environment and Natural Resources performs all of the functions of the South Dakota Conservancy District, except for quasi-legislative, quasi-judicial, advisory, and special budgetary functions, which are performed by the Board of Water and Natural Resources acting in its capacity as the Conservancy District. The CWSRF is a low interest loan program to finance the construction of wastewater facilities, storm sewers and non-point source pollution control projects. The program was created by the 1987 Clean Water Act amendments. Funds are provided to the states in the form of capitalization grants awarded annually through the United States Environmental Protection Agency. The federal capitalization grants are matched by state funds at a ratio of 5:1.

B. Fund Accounting

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

C. Basis of Accounting

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

D. Cash and Cash Equivalents

For purposes of the accompanying statement of net position and statement of cash flows all highly liquid investments with original maturities of 90 days or less are considered to be cash equivalents.

E. Investments

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

F. Premiums and Deferred Amounts on Refunding

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

G. Revenue and Expense Recognition

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

H. Federal Capitalization Grant

Federal capitalization grants reported as nonoperating income in the statement of revenues, expenses, and changes in fund net position is a federally funded loan program. Information about the program is as follows:

CFDA Number:	66.458
Federal Agency:	Environmental Protection Agency
Program:	Clean Water State Revolving Fund
State Agency:	Environment & Natural Resources
Outstanding Loans:	\$324,948,781
Current Year	
Administrative Expense:	\$447,068
Loan Disbursement:	\$67,214,441

I. 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.

J. Pension

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

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

K. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

2. CASH AND INVESTMENTS

Cash

Cash and Cash Equivalents at the end of FY21 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 6/30/21 had a total annualized return of .02%.

Investments

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

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The maturities of the investments as of June 30, 2021 are listed below.

Level 2

Investment	Maturities	Fair Value
US Treasury Bond	07/31/2021	\$2,502,250.00
US Treasury Bond	12/31/2021	\$3,023,310.00
US Treasury Bond	11/30/2021	\$3,022,740.00
US Treasury Bond	10/15/2021	\$2,520,425.00
US Treasury Bond	10/15/2021	\$504,085.00
US Treasury Bond	10/31/2021	\$2,007,920.00
US Treasury Bond	03/31/2022	\$751,642.50
US Treasury Bond	04/30/2022	\$761,130.00
US Treasury Bond	11/15/2021	\$1,515,705.00
US Treasury Bond	11/30/2021	\$1,508,970.00
US Treasury Bond	11/30/2021	\$5,029,900.00
US Treasury Bond	11/15/2021	\$3,928,041.00
US Treasury Bond	12/15/2021	\$5,058,400.00
US Treasury Bond	03/15/2022	\$508,125.00
US Treasury Bond	05/31/2022	\$750,232.50
US Treasury Bond	06/30/2022	\$750,172.50
US Treasury Bond	08/31/2021	\$2,508,100.00
US Treasury Bond	01/15/2022	\$3,799,237.50
US Treasury Bond	12/31/2021	\$2,019,220.00
US Treasury Bond	09/30/2021	\$6,030,900.00
		\$48,500,506.00

Investment	Maturities	Fair Value
Federal Agency Bond	10/12/2021	\$1,285,582.50
Federal Agency Bond	10/13/2021	\$1,500,150.00
Federal Agency Bond	12/10/2021	\$8,090,480.00
Federal Agency Bond	12/20/2021	\$1,108,140.00
		\$ 11,984,352.50

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

Excluding investments explicitly guaranteed by the U.S. Government which are not considered to have credit risk, the CWSRF held Federal Agency Bonds with a fair value of \$11,984,353 which were rated AAA by Moody's Investor Services.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Clean Water State Revolving Fund's investments may not be returned. As of June 30, 2021, \$88,287,863 of guaranteed investment contracts were uninsured and unregistered, with the securities held by its trust department, but not in the CWSRF's name and, as a result, were exposed to custodial credit risk. Also, investments were made in US Treasury Bonds with a market value of \$48,500,506 and in Federal Agency Bonds with a market value of \$11,984,353 were exposed to custodial credit risk.

Guaranteed Investment Contracts (GICS):

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

	<u>Maturities</u>	<u>Contract Value</u>
Guaranteed Investment Contract	8/01/2025	\$17,310,135
Guaranteed Investment Contract	8/01/2026	\$70,977,728
		<u>\$88,287,864</u>

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

<u>Moody's Rating</u>	<u>Contract Value</u>
Baa1*	\$ 88,287,863

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

3. LOANS RECEIVABLE

Loans receivable consist of loans made to local governments through a loan agreement. In order for a borrower to receive a loan, evidence must be shown that the principal and interest of the loan will be repaid. Therefore, each local government must show the ability to impose utility rates, levy special assessments or collect sales taxes that will generate enough revenue to equal at least 110% of the annual principal and interest on the loan. Loans made from the CWSRF may be made at or below market interest rates and shall be fully amortized within thirty years of the date which is not more than one year following completion of the project financed. Interest rates are reduced for those loans shorter than thirty years. Of the \$324,948,781 loan receivable balance, \$12,322,437 is a long-term receivable balance and \$797,408 is a short-term receivable balance for the Ellsworth Development Authority which is a component unit of the State of South Dakota.

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, 2021, 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.

The 2020 notes to the financial statements included a discussion regarding the District being served notice by a borrower of a potential risk of default. During state fiscal year 2021 the District staff worked with the borrower and their financial advisor to address the issues leading to the potential default and provide options to assure payment. The borrower was able to secure additional financing for an outstanding debt at terms that alleviated the issues of default. All payments during the fiscal year were made and the District does not believe the risk potential default exists any longer.

4. LONG-TERM DEBT

The revenue bond issues outstanding as of June 30, 2021 are as follows:

Issue	Interest Rate	Maturity Through FY	Principal Balance
Series 2010AB			
Build America Bonds (BABs)			
State Match	4.084% - 5.646%	2031	\$ 2,320,000
Leveraged	4.084% - 5.646%	2031	22,595,000
Tax Exempt Bonds			
State Match	5.125%	2030	178,544
Leveraged	5.125%	2030	1,785,441
Series 2012A			
Taxable Bonds			
State Match	1.648% - 3.183%	2027	610,000
Leveraged	1.648% - 3.183%	2027	15,855,000
Series 2012B			
Tax Exempt Bonds			
State Match	4.000% - 5.000%	2023	195,000
Leveraged	4.000% - 5.000%	2031	7,215,000
Series 2014B			
Tax Exempt Bonds			
Leveraged	5.000%	2035	35,410,000
Series 2017A			
Taxable Bonds			
State Match	1.410% - 2.149%	2023	2,920,000
Series 2017B			
Tax Exempt Bonds			
State Match	5.00%	2030	995,000
Leveraged	3.00%-5.00%	2038	60,410,000
Series 2018			
Tax Exempt Bonds			
Leveraged	5.00%	2039	54,350,000
Series 2020			
Tax Exempt Bonds			
Leveraged			76,310,000
Total			281,148,985
Add: Unamortized Bond Premium			54,064,734
Total Net of Amortization			<u>\$ 335,213,719</u>

Future bond payments and future interest payments remaining as of June 30, 2021 are as follows:

Year Ended June 30	Principal	Interest	Total Principal and Interest
2022	14,685,000	13,270,967	24,140,467
2023	15,335,000	12,657,132	24,176,632
2024	16,520,000	11,956,540	22,277,165
2025	17,130,000	11,180,916	22,111,916
2026	17,760,000	10,364,145	
2027-2031	77,871,124	39,706,465	95,347,770
2032-2036	61,835,000	21,286,100	66,681,425
2037-2042	43,160,000	7,935,625	26,543,750
TOTAL	\$ 281,148,985	\$ 128,357,891	\$ 409,506,875

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$217,953,985	\$ 76,310,000	\$ (13,115,000)	\$ 281,148,985	\$ 14,685,000
Add: Bond Premium	33,110,329	24,225,263	(3,270,858)	54,064,734	3,270,858
Total	251,064,314	100,535,263	(16,385,858)	\$335,213,719	17,955,858
Compensated Absences	57,756	0	(42,243)	15,513	8,144
Long-Term Liabilities	<u>\$ 251,122,070</u>	<u>\$ 100,535,263</u>	<u>\$(16,428,101)</u>	<u>\$ 335,229,232</u>	<u>\$ 17,964,002</u>

5. REFUNDED BONDS

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

The 2017A refunding portion had an average interest rate of 1.73 percent which was used to refund \$725,000 of outstanding Taxable Series 2012B bonds with an average interest rate of 4.34 percent. The Series 2017B refunding portion had an average interest rate of 4.98 percent which was used to refund \$26,190,000 Tax-exempt Series 2012B bonds with an average interest rate of 5.03 percent. The net proceeds of the refunding portion of \$36,727,046 were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded portions. As a result, the refunded portion bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position.

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,626,031. This difference is being charged to operations through 2032 using the effective-interest method. The District completed the advanced refunding for a net economic gain of \$2,810,001. The difference between the cash flows of the refunded bonds and the refunding bonds is a \$3,472,275 reduction in debt service payments.

Fully defeased bonds not yet paid to bondholders as of June 30, 2020, are as follows:

Bond Issues	Year of Defeasance	Original Amount Defeased
Series 2012B (01)	2018	\$ 725,000
Series 2012B	2018	26,190,000
		<u>\$ 26,915,000</u>
Series 2012B (01) and Series 2012B that were escrowed will be called on August 1, 2022.		

6. COMMITMENTS

As of June 30, 2021, the CWSRF had loan commitments with borrowers worth \$101,530,570.

7. PENSION PLAN

The Department of Environment and Natural Resources, (DENR), 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 Comprehensive Annual Financial Report (CAFR) will report the State's proportionate share of the plan. The CAFR 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. DENR contributions to the SDRS for the fiscal years ended June 30, 2021, 2020, and 2019 were \$14,895, \$17,696, and \$17,871, respectively, equal to the required contributions each year.

The net pension asset was measured as of June 30, 2021 and the estimated SDRS was 100% funded. At June 30, 2021, CWSRF reported an asset of \$497 for its proportionate share of the net pension asset. At June 30, 2021, 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	\$ 1,901	\$ 389
Changes in assumption	16,005	64,551
Net difference between projected and actual earnings on pension plan investments	46,184	
Changes in Proportionate Share	1,313	-
Contributions after the measurement date	14,895	-
Total	<u>\$ 80,795</u>	<u>\$ 64,940</u>

8. ANNUAL AND SICK LEAVE ACCRUAL

All employees earn annual leave. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2021, a liability existed for accumulated annual leave calculated at the employee's June 30, 2021 pay rate in the amount of \$8,126. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one-fourth of their accumulated sick leave balance. This payment is not to exceed the sum of twelve weeks of employee's annual compensation. At June 30, 2021, a liability existed for accumulated sick leave, calculated at each employee's June 30, 2021 pay rate in the amount of \$7,189. The total leave liability of \$15,315 at June 30, 2021 is shown as a liability on the balance sheet.

9. RISK MANAGEMENT

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
DRINKING WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2020**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 38,285,899.72
Investments	18,861,630.00
Due from Federal Government	428,474.05
Due from Other Governments	176,567.80
Accrued Interest Receivable	1,990,227.29
Loans Receivable	12,245,576.16
Total Current Assets	<u>71,988,375.02</u>

Noncurrent Assets:

Investments	57,769,388.23
Net Pension Assets	781.00
Loans Receivable	181,359,842.33
Total Noncurrent Assets	<u>239,130,011.56</u>

Total Assets

311,118,386.58

Deferred Outflows of Resources

Related to Pensions	127,773.00
Deferred Charge on Refunding	1,346,956.25
Total Deferred Outflows of Resources	<u>1,474,729.25</u>

Liabilities

Current Liabilities:

Accounts Payable	207,756.86
Accrued Liabilities	8,285.18
Compensated Absences Payable	8,126.34
Accrued Interest Payable	3,086,643.04
Bonds Payable - net of unamortized premium and discount	8,366,044.65
Total Current Liabilities	<u>11,676,856.07</u>

Noncurrent Liabilities:

Compensated Absences Payable	7,189.04
Arbitrage Payable	1,463,050.05
Bonds Payable - net of unamortized premium and discount	83,731,057.29
Total Noncurrent Liabilities	<u>85,201,296.38</u>

Total Liabilities

96,878,152.45

Deferred Inflows of Resources

Related to Pensions	102,053.00
Total Deferred Inflows of Resources	<u>102,053.00</u>

Net Position

Restricted For Pension Obligations	26,501.00
Unrestricted	215,586,409.38

Total Net Position

\$ 215,612,910.38

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, 2020**

Operating Revenues:

Loan Interest Income	\$ 3,877,884.86
Other Income	976,180.07
Total Operating Revenues	<u>4,854,064.93</u>

Operating Expenses:

Administrative Expenses		
Personal Services	402,709.35	
Employee Benefits	87,442.97	
Travel	5,684.57	
Contractual	625,049.55	
Supplies	703.91	
Grants	329,975.40	
Other	158.90	
Total Administrative Expenses		1,451,724.65
Loan Principal Forgiveness Expense		5,545,102.00
Interest Expense		4,970,333.21
Total Operating Expenses		<u>11,967,159.86</u>

Operating Income (Loss) (7,113,094.93)

Nonoperating Revenue (Expenses):

Federal Capitalization Grants	9,589,368.77
Other Income	417,938.75
Investment Income	2,853,030.36
Arbitrage Expense	(195,478.74)
Payments to State	(54,733.82)
Total Nonoperating Revenues (Expenses)	<u>12,610,125.32</u>

Change in Net Position 5,497,030.39

Net Position at Beginning of Year 210,221,328.85

Net Position at End of Year \$ 215,718,359.24

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, 2020**

Cash Flows from Operating Activities:

Receipts for Loan Repayments	\$ 24,543,059.51	
Receipts for Interest Income on Loans	3,804,265.35	
Receipts for Surcharge Interest on Loans	960,688.98	
Payments to Loan Recipients	(28,787,353.00)	
Payments for Employee Services	(553,263.20)	
Payments for Contractual Services	(594,651.90)	
Payment for Grants	(290,158.70)	
Payments for Principal Forgiveness	(5,545,102.00)	
Other Payments	(862.81)	
Net Cash Provided (Used) by Operating Activities		(6,463,377.77)

Cash Flows from Noncapital Financing Activities:

Payments to State	(54,733.82)	
Principal Payments on Bonds	(7,515,000.00)	
Interest Payments on Bonds	(3,899,954.92)	
Receipts for Administering Program	9,717,018.00	
Other Income	104,686.98	
Net Cash Provided (Used) by Noncapital Financing Activities		(1,647,983.76)

Cash Flows from Investing Activities:

Interest on Investments	3,008,056.10	
Proceeds from Sale of Investment Securities	24,436,949.63	
Purchase of Investment Securities	(35,773,666.74)	
Net Cash Provided (Used) by Investing Activities		(8,328,661.01)

Net Increase (Decrease) in Cash and Cash Equivalents (16,440,022.54)

Cash and Cash Equivalents at Beginning of Year	54,725,922.26
Cash and Cash Equivalents at End of Year	<u>\$ 38,285,899.72</u>

Reconciliation of Operating Income to Net

Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$ (7,113,094.93)
-------------------------	-------------------

Adjustments to Reconcile Net Income to Net Cash

Provided (Used) by Operating Activities:

Interest Expense	4,970,333.21
Assets: (Increase)/Decrease	
Loans Receivable	(4,244,293.49)
Accrued Interest Receivable on Loans	(73,619.51)
Due from Other Governments	(15,491.09)
Net Pension Assets	1,316.00

Decrease/(Increase) in Deferred Outflows of Resources:

Deferred Outflows of Resources - Related to Pensions	(19,582.00)
--	-------------

Liabilities: Increase/(Decrease)

Accounts Payable	70,459.47
Accrued Employee Benefits	(74,695.36)
Accrued Liabilities	(24,040.07)

Increase/(Decrease) in Deferred Inflows of Resources:

Deferred Inflows of Resources - Related to Pensions	59,330.00	
Total Adjustments		649,717.16
Net Cash Provided by Operations		<u>\$ (6,463,377.77)</u>

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, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authorizing Legislation

The Drinking Water State Revolving Fund (DWSRF) Loan Program was federally authorized by the Safe Drinking Water Act Amendments of 1996. The state authorized the loan program in 1994 in anticipation of federal action. The Environmental Protection Agency (EPA) developed final guidance for the Drinking Water State Revolving Fund on February 28, 1997. The Board of Water and Natural Resources, 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 Comprehensive Annual Financial Report of the State of South Dakota. The Department of Environment and Natural Resources performs all of the functions of the South Dakota Conservancy District, except for quasi-legislative, quasi-judicial, advisory, and special budgetary functions, which are performed by the Board 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 federal capitalization grants are matched by state funds at a ratio of 5:1.

B. Fund Accounting

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

C. Basis of Accounting

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

D. Cash and Cash Equivalents

For purposes of the accompanying statement of net position and statement of cash flows all highly liquid investments with original maturities of 90 days or less are considered to be cash equivalents.

E. Investments

Investments are reported at fair value 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.

F. 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.

G. Revenue and Expense Recognition

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

H. Federal Capitalization Grant

Federal capitalization grants reported as nonoperating income in the statement of revenues, expenses, and changes in fund net position is a federally funded loan program. Information about the program is as follows:

CFDA Number:	66.468
Federal Agency:	Environmental Protection Agency
Program:	Drinking Water State Revolving Fund
State Agency:	Environment & Natural Resources
Outstanding Loans:	\$193,605,418
Current Year	
Administrative Expense:	\$853,080
Loan Disbursement:	\$34,332,455

I. 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.

J. Pension

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

K. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

2. CASH AND INVESTMENTS

Cash

Cash and Cash Equivalents at the end of FY21 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 6/30/20 had a total annualized return of 0.02%.

Investments

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

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The maturities of the investments as of June 30, 2021 are listed below.

Level 2		
Investment	Maturities	Fair Value
US TREASURY BONDS	10/15/2021	\$1,764,298
US TREASURY BONDS	01/31/2022	\$1,003,240
US TREASURY BONDS	12/31/2021	\$503,885
US TREASURY BONDS	10/31/2021	\$250,990
US TREASURY BONDS	09/15/2021	\$1,005,560
US TREASURY BONDS	02/15/2022	\$761,423
US TREASURY BONDS	03/15/2022	\$254,063
US TREASURY BONDS	02/28/2022	\$758,378
US TREASURY BONDS	08/31/2021	\$3,005,370
US TREASURY BONDS	01/31/2022	\$252,648
US TREASURY BONDS	12/31/2021	\$504,805
US TREASURY BONDS	12/31/2021	\$757,208
US TREASURY BONDS	09/30/2021	\$6,282,188
		<u>\$17,104,053</u>

Investment	Maturities	Fair Value
Federal Agency Bond	10/19/2021	\$504,365

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

Excluding investments explicitly guaranteed by the U.S. Government which are not considered to have credit risk, the DWSRF held Federal Agency Bonds with a fair value of \$504,365, which were rated AAA by Moody's Investor Services.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Drinking Water State Revolving Fund's investments may not be returned. At June 30, 2021, \$57,769,388 of guaranteed investment contracts was 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. Also, investments made in US Treasury Bonds with a market value of \$17,104,053 and in Federal Agency Bonds with a market value of \$504,365 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	8/01/2025	\$ 45,334,118
Guaranteed Investment Contract	8/01/2026	12,435,270
		<u>\$ 57,769,388</u>

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

Moody's Rating
Baa1*

Contract Value
\$ 57,769,388

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

3. LOANS RECEIVABLE

Loans receivable 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.

4. LONG-TERM DEBT

The Revenue bond issues outstanding as of June 30, 2020 are as follows:

Issue	Interest Rate	Maturity Through FY	Principal Balance
Series 2010AB Build America Bonds (BABs) Leveraged	4.084% - 5.646%	2031	\$ 12,135,000
Tax Exempt Bonds State Match	2.000% - 5.125%	2030	439,493
Leveraged	2.000% - 5.125%	2030	1,171,522
Series 2012A Taxable Bonds State Match	1.648% - 3.183%	2027	2,125,000
Leveraged	1.648% - 3.183%	2027	9,180,000
Series 2014B Tax Exempt Bonds Leveraged	5.000%	2035	4,710,000
Series 2017A Taxable Bonds State Match	1.410% - 2.149%	2023	3,755,000
Series 2017B Tax Exempt Bonds State Match	5.000%	2030	1,035,000
Leveraged	5.000%	2038	11,080,000
Series 2018 Tax Exempt Bonds Leveraged	5.000%	2039	37,060,000

Total	82,691,015
Add: Unamortized Premium	9,406,085
Total Net of Amortization	<u>\$ 92,097,100</u>

Future bond payments and future interest payments remaining as of June 30, 2021 are as follows:

Year Ended June 30	Principal	Interest	Total Principal and Interest
2022	7,740,000	3,652,749	11,392,749
2023	8,140,000	3,378,968	11,518,968
2024	6,315,000	3,108,985	9,423,985
2025	6,425,000	2,848,259	9,273,259
2026	4,555,000	2,604,812	
2027-2031	23,061,015	9,484,951	34,485,186
2032-2036	16,445,000	4,593,625	22,427,467
2037-2040	10,010,000	731,250	14,573,000
TOTAL	<u>\$ 82,691,015</u>	<u>\$ 30,403,600</u>	<u>\$ 113,094,615</u>

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 90,206,015	\$ 0	\$ (7,515,000)	\$ 82,691,015	\$ 7,740,000
Add: Bond Premium	10,032,130	\$ 0	(626,045)	9,406,085	626,045
Total	100,238,145	0	(8,141,045)	92,097,100	8,366,045
Compensated Absences	90,011	0	(73,599)	16,412	8,285
Long-Term Liabilities	<u>\$ 100,328,156</u>	<u>\$ 0</u>	<u>\$ (8,214,644)</u>	<u>\$ 92,113,512</u>	<u>\$ 8,374,330</u>

5. REFUNDED BONDS

The SDCC entered into refunding whereby refunding bonds have been issued to facilitate defeasance of the District's obligation with respect to certain bond issues. The proceeds of the refunding issues have been placed in irrevocable escrow accounts and invested in U.S. Treasury obligations that, together with interest earned thereon, will provide amounts sufficient for future payments of interest and principal on the issues being refunded. Refunded bonds and the related assets held in the trust are not included in the accompanying financial statements since the District has satisfied its obligations with respect thereto through consummation of the refunding transactions.

The 2017A refunding portion had an average interest rate of 1.73 percent which was used to refund \$790,000 of outstanding Taxable 2012B bonds with an average interest rate of 4.34 percent. The net proceeds of the refunding portion of \$5,543,839 were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded portions. As a result, the refunded portion bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position.

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$499,854. This difference is being charged to operations through 2028 using the effective-interest method. The District completed the advanced refunding for a net economic gain of \$627,936. The difference between the cash flows of the refunded bonds and the refunding bonds is a \$765,664 reduction in debt service payments.

Fully defeased bonds not yet paid to bondholders as of June 30, 2021, are as follows:

Bond Issues	Year of Defeasance	Original Amount Defeased
Series 2012B (01)	2018	\$ 790,000
Series 2012B (01) that were escrowed will be called on August 1, 2022.		

6. COMMITMENTS

As of June 30, 2021, the DWSRF had loan commitments with borrowers worth \$63,677,474.

7. PENSION PLAN

The Department of Environment and Natural Resources, (DENR), 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 Comprehensive Annual Financial Report (CAFR) will report the State's proportionate share of the plan. The CAFR 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. DENR contributions to the SDRS for the fiscal years ended June 30, 2021, 2020, and 2019, were \$24,993, \$27,801, and \$34,407, respectively, equal to the required contributions each year.

The net pension liability was measured as of June 30, 2021, and the estimated SDRS is 100% funded. At June 30, 2021, the DWSRF reported an asset of \$781 for its proportionate share of the net pension asset. At June 30, 2020, 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	\$ 2,987	\$ 612
Changes in assumption	25,152	101,441
Net difference between projected and actual earnings on pension plan investments	\$72,578	
Changes in Proportionate Share	2,063	-
Contributions after the measurement date	24,993	-
Total	<u>\$ 127,773</u>	<u>\$ 102,053</u>

8. ANNUAL AND SICK LEAVE ACCRUAL

All employees earn annual leave. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2020, a liability existed for accumulated annual leave calculated at the employee's June 30, 2020, pay rate in the amount of \$8,285. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one-fourth of their accumulated sick leave balance. This payment is not to exceed the sum of twelve weeks of employee's annual compensation. At June 30, 2021, a liability existed for accumulated sick leave, calculated at each employee's June 30, 2021, pay rate in the amount of \$15,315. The total leave liability of \$23,600 at June 30, 2021, is shown as a liability on the balance sheet.

9. RISK MANAGEMENT

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