

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

AUDIT REPORT

Fiscal Year Ended June 30, 2021



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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
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RUSSELL A. OLSON
AUDITOR GENERAL

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Kristi Noem
Governor of South Dakota

and

South Dakota Board of Water and Natural Resources

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Clean Water State Revolving Fund, a component unit of the State of South Dakota, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Clean Water State Revolving Fund's basic financial statements, and have issued our report thereon dated October 12, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Board of Water and Natural Resources' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

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

Russell A. Olson
Auditor General

October 12, 2021



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RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Kristi Noem
Governor of South Dakota

and

South Dakota Board of Water and Natural Resources

Report on the Financial Statements

We have audited the accompanying financial statements of the Clean Water State Revolving Fund, a component unit of the State of South Dakota, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Clean Water State Revolving Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clean Water State Revolving Fund as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Clean Water State Revolving Fund and do not purport to, and do not, present fairly the financial position of the Board of Water and Natural Resources as of June 30, 2021, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-7 and the Schedules of Proportionate Share of the Net Pension Liability (Asset) and Employer Contributions on pages 20-21 be presented to supplement the basic financial statements. Such information, 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 12, 2021 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

October 12, 2021

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Dakota Board of Water and Natural Resources Clean Water State Revolving Fund's (Fund) financial report presents a narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2021. This analysis has been prepared by management of the Department and is intended to be read in conjunction with the Fund's financial statements and related footnotes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

DEBT ADMINISTRATION

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Changes in Net Position

For the fiscal year ended June 30, 2021, net position increased \$5,056,645 compared to an increase of \$11,682,516 in the prior year. The net position increase was lower than the prior year as a result of a decrease in federal capitalization receipts and an increase to interest expense and grant expense.

	NET POSITION		
	2021	2020	% Change
Current Assets	\$ 210,331,420	\$ 145,095,158	44.96%
Noncurrent Assets	391,366,259	365,156,482	7.18%
Total Assets	601,697,679	510,251,640	17.92%
Related to Pensions	80,298	66,338	21.04%
Deferred Amount of Refunding	5,062,101	5,677,349	-10.84%
Total Deferred Outflows of Resources	5,142,399	5,743,687	-10.47%
Current Liabilities	24,326,363	20,001,297	21.62%
Noncurrent Liabilities	317,265,065	235,841,045	34.52%
Total Liabilities	341,591,428	255,842,342	33.52%
Related to Pensions	64,940	25,918	150.56%
Total Deferred Inflows of Resources	64,940	25,918	150.56%
Net Position:			
Restricted for Pension Benefits	15,855	41,692	-61.97%
Unrestricted	265,167,856	260,085,374	1.95%
Total Net Position	\$ 265,183,711	\$ 260,127,066	1.94%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN NET POSITION			
	2021	2020	% Change
Loan Interest Income	\$ 5,847,889	\$ 5,723,623	2.17%
Other Income	1,824,619	1,676,845	8.81%
Total Operating Revenue	7,672,508	7,400,468	3.68%
Administrative Expenses	2,570,463	1,698,007	51.38%
Bond Issuance Costs	278,660	252,314	10.44%
Grant Expenses	4,316,255	2,777,577	55.40%
Interest Expense	10,945,617	8,749,748	25.10%
Total Operating Expenses	18,110,995	13,477,646	34.48%
Operating Income (Loss)	(10,438,487)	(6,077,178)	71.77%
Federal Capitalization Grants	10,940,150	11,575,418	-5.49%
Other Income	425,341	430,510	-1.20%
Investment Income	4,131,658	5,832,053	-29.16%
Arbitrage	34,371	(34,371)	-200.0%
Payments to State	(36,388)	(43,916)	-17.14%
Non-Operating Rev (Exp)	15,495,132	17,759,694	-12.75%
Change in Net Position	5,056,644	11,682,516	-56.72%
Beginning Net Position	260,127,067	248,444,551	4.70%
Total Net Position	\$ 265,183,711	\$ 260,127,067	1.94%

CURRENT CONDITIONS

The state is challenged demographically with a large number of small rural communities and only two cities with populations over 50,000 people. The Clean Water State Revolving Fund Program assists the state in meeting these challenges and infrastructure needs. In state fiscal year 2021, the Clean Water State Revolving Fund obligated \$61.52 million to 23 projects.

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION
June 30, 2021**

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

**SOUTH DAKOTA BOARD OF WATER
AND NATURAL RESOURCES
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended June 30, 2021**

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 Revenues (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, 2021**

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	<u>\$ 109,938,325.50</u>

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)
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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. CWSRF

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 a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, 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 of 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
US Treasury Bond	12/31/2021	3,023,310
US Treasury Bond	11/30/2021	3,022,740
US Treasury Bond	10/15/2021	2,520,425
US Treasury Bond	10/15/2021	504,085
US Treasury Bond	10/31/2021	2,007,920
US Treasury Bond	03/31/2022	751,642
US Treasury Bond	04/30/2022	761,130
US Treasury Bond	11/15/2021	1,515,705
US Treasury Bond	11/30/2021	1,508,970
US Treasury Bond	11/30/2021	5,029,900
US Treasury Bond	11/15/2021	3,928,041
US Treasury Bond	12/15/2021	5,058,400
US Treasury Bond	03/15/2022	508,125
US Treasury Bond	05/31/2022	750,233
US Treasury Bond	06/30/2022	750,173
US Treasury Bond	08/31/2021	2,508,100
US Treasury Bond	01/15/2022	3,799,237
US Treasury Bond	12/31/2021	2,019,220
US Treasury Bond	09/30/2021	6,030,900
		\$ 48,500,506

Investment	Maturities	Fair Value
Federal Agency Bond	10/12/2021	\$ 1,285,583
Federal Agency Bond	10/13/2021	1,500,150
Federal Agency Bond	10/19/2021	4,539,285
Federal Agency Bond	12/10/2021	8,090,480
Federal Agency Bond	12/20/2021	1,108,140
Federal Agency Bond	01/11/2022	5,067,150
Federal Agency Bond	01/28/2022	1,450,208
Federal Agency Bond	04/05/2022	2,280,758
		\$ 25,321,754

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 \$25,321,754 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 \$25,321,754 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>\$ 88,287,863</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*	<u>\$ 8,287,863</u>

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

3. LOANS RECEIVABLE

Loans receivable consist of loans made to local governments through a loan agreement. In order for a borrower to receive a loan, evidence must be shown that the principal and interest of the loan will be repaid. 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 of 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	4.384% - 5.646%	2031	\$ 2,320,000
Leveraged	4.384% - 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	2.533% - 3.183%	2027	610,000
Leveraged	2.533% - 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	1.949% - 2.149%	2023	2,920,000
Series 2017B			
Tax Exempt Bonds			
State Match	5.00%	2030	995,000
Leveraged	5.00%	2038	60,410,000
Series 2018			
Tax Exempt Bonds			
Leveraged	5.00%	2039	54,350,000
Series 2020			
Tax Exempt Bonds			
Leveraged	5.00%	2043	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	\$ 27,955,967
2023	15,335,000	12,657,132	27,992,132
2024	16,520,000	11,956,540	28,476,540
2025	17,130,000	11,180,916	28,310,916
2026	17,760,000	10,364,145	28,124,145
2027-2031	80,413,985	39,706,465	120,120,450
2032-2036	65,090,000	21,286,100	86,376,100
2037-2041	42,565,000	7,346,125	49,911,125
2042-2043	11,650,000	589,500	12,239,500
TOTAL	\$ 281,148,985	\$ 128,357,890	\$ 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	(42,408)	15,348	8,144
Long-Term Liabilities	<u>\$ 251,122,070</u>	<u>\$ 100,535,263</u>	<u>\$ (16,428,266)</u>	<u>\$ 335,229,067</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.

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	\$ 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 will report the State's proportionate share of the plan. The Comprehensive Annual Financial Report 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, 2020 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>\$ 80,298</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. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one-fourth of their accumulated sick leave balance. This payment is not to exceed the sum of twelve weeks of employee's annual compensation. The total leave liability of \$15,348 at June 30, 2021 is shown as a liability on the statement of net position.

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.

10. SUBSEQUENT EVENTS

SDDA / DENR Merger

On August 27, 2020, SD Governor Kristi Noem announced her plan to merge the Department of Agriculture (SDDA) and the Department of Environment and Natural Resources (DENR) into a single agency, the Department of Agriculture and Natural Resources (DANR). An Executive Order dated January 19, 2021, implemented the merger and DANR officially began operating as a merged agency on April 19, 2021. However, DANR did not begin operating under a single, merged budget until July 1, 2021. Therefore, between April 19, 2021, and July 1, 2021, SDDA and DANR continued to operate under separate budgets.

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

as of June 30, 2021

South Dakota Retirement System

Last 10 Fiscal Years

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 14,895	\$ 17,696	\$ 17,871	\$ 19,155	\$ 17,741	\$ 18,229	\$ 15,918	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>\$ 14,895</u>	<u>\$ 17,696</u>	<u>\$ 17,871</u>	<u>\$ 19,155</u>	<u>\$ 17,741</u>	<u>\$ 18,229</u>	<u>\$ 15,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund's covered-employee payroll	\$ 271,924	\$ 260,374	\$ 265,997	\$ 291,839	\$ 273,068	\$ 270,166	\$ 266,303	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	5.48%	6.80%	6.72%	6.56%	6.50%	6.75%	5.98%	\$ -	\$ -	\$ -

<p>This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.</p>

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

as of June 30, 2021

South Dakota Retirement System

*Last 10 Fiscal Years

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Fund's proportion of the net pension liability (asset)	0.05542%	0.05791%	0.06294%	0.05888%	0.06231%	0.0647%	0.05850%	%	%	%
Fund's proportionate share of net pension liability (asset)	\$ (497)	\$ (1,272)	\$ (308)	\$ (1,153)	\$ 46,888	\$ (61,641)	\$ (92,933)	\$ -	\$ -	\$ -
Fund's covered-employee payroll	\$ 271,924	\$ 260,374	\$ 265,997	\$ 291,839	\$ 273,068	\$ 270,166	\$ 266,303	\$ -	\$ -	\$ -
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.18%	0.49%	0.12%	0.40%	17.17%	22.82%	34.90%			
Plan fiduciary net position as a percentage of the total pension liability (asset)	100%	100%	100%	100%	97%	104%	107%			

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

<p>This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.</p>
