

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

**AUDIT REPORT**

**Fiscal Year Ended June 30, 2020**



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



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

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

The Honorable 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 Drinking Water State Revolving Fund, a component unit of the State of South Dakota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Drinking Water State Revolving Fund's basic financial statements, and have issued our report thereon dated October 6, 2020.

**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 6, 2020



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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 Drinking Water State Revolving Fund, a component unit of the State of South Dakota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Drinking Water State Revolving Fund's basic financial statements as listed in the table of contents.

### 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 Drinking Water State Revolving Fund as of June 30, 2020, 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 Drinking 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, 2020, 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 19-20 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 6, 2020 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 6, 2020



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the South Dakota Board of Water and Natural Resources Drinking Water State Revolving Fund's (Fund) financial report presents a narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2020. 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 Drinking 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 drinking 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  
DRINKING WATER STATE REVOLVING FUND

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Changes in Net Position**

For the fiscal year ended June 30, 2020, net position of the Fund increased by \$10,834,759 or 5.4%. This increase is higher than the 1.5% increase in FY19 and is primarily the result of a increase of federal capitalization receipts. This is mainly due to revenue for federal capitalization grants being higher in 2020. The federal capitalization receipts for the current fiscal year increased by 416.5% or \$9,051,615.

<b>NET POSITION</b>			
	<b>2020</b>	<b>2019</b>	<b>% Change</b>
Current Assets	\$ 75,285,994	\$ 84,573,401	-11.0%
Noncurrent Assets	236,678,482	225,191,262	5.1%
<b>Total Assets</b>	<b>311,964,476</b>	<b>309,764,663</b>	<b>0.7%</b>
Related To Pensions	108,191	164,353	-34.2%
Deferred Amount of Refunding	1,630,056	1,913,155	-14.8%
<b>Total Deferred Outflows of Resources</b>	<b>1,738,247</b>	<b>2,077,508</b>	<b>-16.3%</b>
Current Liabilities	10,031,809	12,135,664	-17.3%
Noncurrent Liabilities	93,406,861	100,284,790	-6.9%
<b>Total Liabilities</b>	<b>103,438,670</b>	<b>112,420,454</b>	<b>-8.0%</b>
Related to Pensions	42,723	35,148	21.6%
<b>Total Deferred Inflows of Resources</b>	<b>42,723</b>	<b>35,148</b>	<b>21.6%</b>
Net Position:			
Restricted For Pension Benefits	67,565	129,668	-47.9%
Unrestricted	210,153,764	199,256,902	5.5%
<b>Total Net Position</b>	<b>\$ 210,221,329</b>	<b>\$ 199,386,570</b>	<b>5.4%</b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CHANGES IN NET POSITION**

	<b>2020</b>	<b>2019</b>	<b>% Change</b>
Loan Interest Income	\$ 4,017,210	\$ 3,666,218	9.6%
Other Income	1,015,668	920,699	10.3%
<b>Total Operating Revenues</b>	<b>5,032,878</b>	<b>4,586,917</b>	<b>9.7%</b>
Administrative Expenses	1,469,317	1,682,996	-12.7%
Grant Expenses	3,712,977	2,745,232	35.3%
Bond Issue Costs	0	246,717	-100.0%
Interest Expense	3,730,343	3,110,383	19.9%
<b>Total Operating Expenses</b>	<b>8,912,637</b>	<b>7,785,328</b>	<b>14.5%</b>
<b>Operating Income (Loss)</b>	<b>(3,879,758)</b>	<b>(3,198,411)</b>	<b>-21.3%</b>
Federal Capitalization Grants	11,224,754	2,173,139	416.5%
Other Income	209,463	210,448	-0.5%
Investment Income	3,786,236	4,230,379	-10.5%
Arbitrage	(437,096)	(436,865)	0.1%
Payments to State	(68,840)	(84,005)	-18.1%
<b>Non-Operating Rev (Exp)</b>	<b>14,714,517</b>	<b>6,093,096</b>	<b>141.5%</b>
<b>Change in Net Position</b>	<b>10,834,759</b>	<b>2,894,685</b>	<b>274.3%</b>
<b>Beginning Net Position</b>	<b>199,386,570</b>	<b>196,491,885</b>	<b>1.5%</b>
<b>Total Net Position</b>	<b>\$ 210,221,329</b>	<b>\$ 199,386,570</b>	<b>5.4%</b>

**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 Drinking Water State Revolving Fund Program assists the state in meeting these challenges and infrastructure needs. In state fiscal year 2020, the Drinking Water State Revolving Fund obligated \$37.8 million to 24 projects.

**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	\$ 54,725,922.26
Investments	7,798,941.56
Due from Federal Government	348,320.37
Due from Other Governments	161,076.71
Accrued Interest Receivable	1,850,868.31
Loans Receivable	10,400,864.58
<b>Total Current Assets</b>	<u>75,285,993.79</u>

Noncurrent Assets:

Investments	57,716,124.77
Net Pension Assets	2,097.00
Loans Receivable	178,960,260.42
<b>Total Noncurrent Assets</b>	<u>236,678,482.19</u>

**Total Assets**

311,964,475.98

**Deferred Outflows of Resources**

Related to Pensions	108,191.00
Deferred Charge on Refunding	1,630,055.54
<b>Total Deferred Outflows of Resources</b>	<u>1,738,246.54</u>

**Liabilities**

Current Liabilities:

Accounts Payable	137,297.39
Accrued Liabilities	32,325.25
Compensated Absences Payable	47,822.70
Accrued Interest Payable	1,673,319.39
Bonds Payable - net of unamortized premium and discount	8,141,044.65
<b>Total Current Liabilities</b>	<u>10,031,809.38</u>

Noncurrent Liabilities:

Compensated Absences Payable	42,188.04
Arbitrage Payable	1,267,571.31
Bonds Payable - net of unamortized premium and discount	92,097,101.94
<b>Total Noncurrent Liabilities</b>	<u>93,406,861.29</u>

**Total Liabilities**

103,438,670.67

**Deferred Inflows of Resources**

Related to Pensions	42,723.00
<b>Total Deferred Inflows of Resources</b>	<u>42,723.00</u>

**Net Position**

Restricted For Pension Obligations	67,565.00
Unrestricted	210,153,763.85

**Total Net Position**

\$ 210,221,328.85

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	\$ 4,017,209.71
Other Income	<u>1,015,668.16</u>
Total Operating Revenues	<u><u>5,032,877.87</u></u>

**Operating Expenses:**

Administrative Expenses		
Personal Services	408,198.24	
Employee Benefits	180,482.28	
Travel	7,963.21	
Contractual	687,009.64	
Supplies	104.75	
Grants	185,428.20	
Other	<u>130.37</u>	
Total Administrative Expenses		1,469,316.69
Loan Principal Forgiveness Expense		3,712,977.00
Interest Expense		<u>3,730,342.51</u>
Total Operating Expenses		<u><u>8,912,636.20</u></u>

Operating Income (Loss)	(3,879,758.33)
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**Nonoperating Revenue (Expenses):**

Federal Capitalization Grants	11,224,754.35
Other Income	209,463.01
Investment Income	3,786,235.90
Arbitrage Expense	(437,096.32)
Payments to State	<u>(68,839.51)</u>
Total Nonoperating Revenues (Expenses)	<u><u>14,714,517.43</u></u>

Change in Net Position	10,834,759.10
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Net Position at Beginning of Year	<u>199,386,569.75</u>
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<b>Net Position at End of Year</b>	<u><u>\$ 210,221,328.85</u></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  
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	\$ 11,431,305.81	
Receipts for Interest Income on Loans	3,993,013.79	
Receipts for Surcharge Interest on Loans	1,006,814.31	
Payments to Loan Recipients	(24,079,576.00)	
Payments for Employee Services	(538,580.46)	
Payments for Contractual Services	(622,392.13)	
Payment for Grants	(168,385.14)	
Payments for Principal Forgiveness	(3,712,977.00)	
Other Payments	(9,083.79)	
Net Cash Provided (Used) by Operating Activities		(12,699,860.61)

**Cash Flows from Noncapital Financing Activities:**

Payments to State	(68,839.51)	
Principal Payments on Bonds	(8,575,000.00)	
Interest Payments on Bonds	(4,359,894.56)	
Receipts for Administering Program	11,190,658.00	
Other Income	209,463.01	
Net Cash Provided (Used) by Noncapital Financing Activities		(1,603,613.06)

**Cash Flows from Investing Activities:**

Interest on Investments	4,218,407.01	
Proceeds from Sale of Investment Securities	44,757,500.31	
Purchase of Investment Securities	(14,214,653.92)	
Net Cash Provided (Used) by Investing Activities		34,761,253.40

Net Increase (Decrease) in Cash and Cash Equivalents 20,457,779.73

Cash and Cash Equivalents at Beginning of Year	34,268,142.53
Cash and Cash Equivalents at End of Year	<u>\$ 54,725,922.26</u>

**Reconciliation of Operating Income to Net**

**Cash Provided (Used) by Operating Activities**

Operating Income (Loss)	\$ (3,879,758.33)
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**Adjustments to Reconcile Net Income to Net Cash**

**Provided (Used) by Operating Activities:**

Interest Expense	3,730,342.51
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**Assets: (Increase)/Decrease**

Loans Receivable	(12,648,270.19)
Accrued Interest Receivable on Loans	(24,195.92)
Due from Other Governments	(8,853.85)
Net Pension Assets	(1,634.00)

**Decrease/(Increase) in Deferred Outflows of Resources:**

Deferred Outflows of Resources - Related to Pensions	56,162.00
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**Liabilities: Increase/(Decrease)**

Accounts Payable	80,775.11
Accrued Employee Benefits	(10,146.46)
Accrued Liabilities	(1,856.48)

**Increase/(Decrease) in Deferred Inflows of Resources:**

Deferred Inflows of Resources - Related to Pensions	7,575.00	
Total Adjustments		(8,820,102.28)
Net Cash Provided by Operations		<u>\$ (12,699,860.61)</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, 2020**

**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:	\$189,361,125
Current Year	
Administrative Expense:	\$914,115
Loan Disbursement:	\$27,792,553

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

## 2. CASH AND INVESTMENTS

### Cash

Cash and Cash Equivalents at the end of FY20 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 1.28%.

### 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, 2020 are listed below.

Level 2

Investment	Maturities	Fair Value
US Treasury Bonds	08/31/2020	\$ 1,252,475
US Treasury Bonds	09/30/2020	499,479
US Treasury Bonds	11/15/2020	1,005,740
US Treasury Bonds	12/15/2020	1,763,528
US Treasury Bonds	01/15/2021	1,009,770
US Treasury Bonds	02/15/2021	255,370
US Treasury Bonds	03/31/2021	253,888
US Treasury Bonds	04/30/2020	254,297
		<u>\$ 6,294,547</u>
Federal Agency Bonds	09/28/2020	\$ 1,504,395
		<u>\$ 1,504,395</u>

*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 \$1,504,395 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, 2020, \$57,716,125 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 \$6,294,547 and in Federal Agency Bonds with a market value of \$1,504,395 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	\$ 45,319,567
Guaranteed Investment Contract	8/01/2026	12,396,558
		<u>\$ 57,716,125</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	Contract Value
Baa1*	<u>\$ 57,716,125</u>

\*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	4.284% - 5.646%	2031	\$ 12,405,000
Tax Exempt Bonds			
State Match	2.000% - 5.125%	2030	799,493
Leveraged	2.000% - 5.125%	2030	2,121,522
Series 2012A			
Taxable Bonds			
State Match	1.898% - 3.183%	2027	2,565,000
Leveraged	1.898% - 3.183%	2027	11,145,000
Series 2014B			
Tax Exempt Bonds			
Leveraged	5.000%	2035	4,940,000
Series 2017A			
Taxable Bonds			
State Match	1.786% - 2.149%	2023	5,485,000
Series 2017B			
Tax Exempt Bonds			
State Match	5.000%	2030	1,035,000
Leveraged	5.000%	2038	11,395,000
Series 2018			
Tax Exempt Bonds			
Leveraged	5.000%	2039	38,315,000
Total			90,206,015
Add: Unamortized Premium			10,032,131
Total Net of Amortization			\$ 100,238,146

Future bond payments and future interest payments remaining as of June 30, 2020 are as follows:

Year Ended June 30,	Principal	Interest	Total Principal and Interest
2021	\$ 7,515,000	\$ 3,899,955	\$ 11,414,955
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
2026-2030	23,816,015	10,669,171	34,485,186
2031-2035	16,995,000	5,432,467	22,427,467
2036-2040	13,260,000	1,313,000	14,573,000
<b>TOTAL</b>	<b>\$ 90,206,015</b>	<b>\$ 34,303,554</b>	<b>\$ 124,509,569</b>

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 98,781,015	\$ 0	\$ (8,575,000)	\$ 90,206,015	\$ 7,515,000
Add: Bond Premium	10,658,175	0	(626,045)	10,032,130	626,045
Total	109,439,190	0	(9,201,045)	100,238,145	8,141,045
Compensated Absences	100,157	0	(10,146)	90,011	47,823
Long-Term Liabilities	<u>\$ 109,539,347</u>	<u>\$ 0</u>	<u>\$ (9,211,191)</u>	<u>\$ 100,328,156</u>	<u>\$ 8,188,868</u>

## 5. REFUNDED BONDS

The SDCD 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 2017B refunding portion had an average interest rate of 4.98 percent which was used to refund \$4,253,985 Tax-exempt 2010B bonds with an average interest rate of 5.03 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, 2020, are as follows:

Bond Issues	Year of Defeasance	Original Amount Defeased
Series 2012B (01)	2018	\$ 790,000
Series 2010B (08)	2018	4,253,985
		<u>\$ 5,043,985</u>

Series 2010B (08) that were escrowed will be called on August 1, 2020.

Series 2012B (01) that were escrowed will be called on August 1, 2022.

## 6. COMMITMENTS

As of June 30, 2020, the DWSRF had loan commitments with borrowers worth \$64,226,116.

## 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, 2020, 2019, and 2018, were \$27,801, \$34,407, and \$33,400, respectively, equal to the required contributions each year.

The net pension liability was measured as of June 30, 2019, and the estimated SDRS is 100% funded. At June 30, 2020, the DWSRF reported an asset of \$2,097 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	\$ 8,226	\$ 949
Changes in assumption	68,314	29,693
Net difference between projected and actual earnings on pension plan investments		12,081
Changes in Proportionate Share	3,850	-
Contributions after the measurement date	27,801	-
Total	<u>\$ 108,191</u>	<u>\$ 42,723</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 \$37,002. 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, 2020, a liability existed for accumulated sick leave, calculated at each employee's June 30, 2020, pay rate in the amount of \$53,009. The total leave liability of \$90,011 at June 30, 2020, 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.

# SCHEDULE OF THE DRINKING WATER STATE REVOLVING FUND CONTRIBUTIONS

as of June 30, 2020

## South Dakota Retirement System

Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 27,801	\$ 34,407	\$ 33,400	\$ 38,850	\$ 16,172	\$ 13,296	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	\$ 27,801	\$ 34,407	\$ 33,400	\$ 38,850	\$ 16,172	\$ 13,296	\$ -	\$ -	\$ -	\$ -
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund's covered-employee payroll	\$ 408,429	\$ 503,024	\$ 500,969	\$ 584,839	\$ 241,482	\$ 222,624	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	6.81%	6.84%	6.67%	6.64%	6.70%	5.97%	\$ -	\$ -	\$ -	\$ -

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.

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

**as of June 30, 2020**

**South Dakota Retirement System**

Last 10 Fiscal Years \*

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Fund's proportion of the net pension liability (asset)	0.09546%	0.09431%	0.13000%	0.05522%	0.05408%	0.0486%	%	%	%	%
Fund's proportionate share of net pension liability (asset)	\$ (2,097)	\$ (463)	\$ (2,059)	\$ 41,551	\$ (51,488)	\$ (77,235)	\$ -	\$ -	\$ -	\$ -
Fund's covered-employee payroll	\$ 408,429	\$ 503,024	\$ 500,969	\$ 584,839	\$ 241,482	\$ 222,624	\$ -	\$ -	\$ -	\$ -
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.51%	0.09%	0.41%	7.10%	21.32%	34.69%				
Plan fiduciary net position as a percentage of the total pension liability (asset)	100%	100%	100%	97%	104%	107%				

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

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.