

PLANNING AND DEVELOPMENT DISTRICT III

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2015

PLANNING AND DEVELOPMENT DISTRICT III

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*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Planning and Development District III
Yankton, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of **PLANNING AND DEVELOPMENT DISTRICT III (the District)**, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District'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.

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Auditor's Responsibility

Our responsibility is to express opinions 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 of 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, and each major fund of Planning and Development District III, as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard

As described in Notes 2 and 10 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2015. 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, the schedule of District's proportionate share of net pension asset, and the schedule of District's contributions as listed in the table of contents, 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 in 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of indirect costs – primary government is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of indirect costs – primary government and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of indirect costs – primary government and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2016 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 the District's internal control over financial reporting and compliance.

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
August 19, 2016

Management's Discussion and Analysis Planning & Development District III For the Year Ended December 31, 2015

This section of Planning & Development District III's (District III's) annual financial report presents our discussion and analysis of District III's financial performance during the fiscal year ended on December 31, 2015. This discussion and analysis considers only the Primary Government's financial activity. Please read it in conjunction with District III's financial statements.

Discussion of the basic financial statements

This annual report consists of two parts:

1. Management's discussion and analysis (this section)
2. Basic financial statements, including related notes that explain some of the information in the financial statements and provide more detailed data

The basic financial statements include two kinds of statements:

- a) The *government-wide financial statements* (Statement of Net Position and the Statement of Activities) provide information about the activities of District III as a whole and present a longer-term view of District III's finances.

These statements report information about District III as a whole and about its activities that help answer the question, "Is District III as a whole better off or worse as a result of the year's activities?" These statements include all assets and liabilities using methods of accounting similar to those used by most private-sector companies.

These statements report District III's net position and changes in them. District III's net position, the difference between assets (what District III owns) and liabilities (what District III owes) is one way to measure District III's financial health. Over time, increases or decreases in District III's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as continuing county and city government membership, also need to be considered to assess the overall health of District III.

The government-wide financial statements of District III are reported in two categories:

1. Governmental Activities – This category includes most of District III's basic services.
2. Component Units – This category includes Areawide Business Council, Inc (a revolving loan fund) and Prairieland Housing Development (a housing program). Although these are legally separate entities, District III has close ties to these entities.

- b) The *fund financial statements* (Balance Sheet-Governmental Funds; Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position; Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds; and Reconciliation of Statement of the Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities) tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report District III's operations in more detail than the government-wide statements.

The fund financial statements of District III are reported in two categories:

1. General Fund – This category includes most of District III's basic services.
2. Special Revenue Fund – This category includes money to be used for economic development activities.

Condensed Financial Information

Table A-1		
Condensed Statement of Net Position	Governmental Activities	
	2014	2015
Current and Other Assets	\$ 1,795,040	\$ 1,711,625
Capital Assets	177,620	160,104
Total Assets	1,972,660	1,871,729
Deferred Outflows of Resources	223,776	279,127
Total Deferred Outflows of Resources	223,776	279,127
Other Liabilities	57,314	90,530
Total Liabilities	57,314	90,530
Deferred Inflows of Resources	638,954	535,812
Total Deferred Inflows of Resources	638,954	535,812
Investments in Capital Assets	177,620	160,104
Restricted	194,570	217,485
Unrestricted	1,127,978	1,146,925
Total Net Position	\$ 1,500,168	\$ 1,524,514
Beginning Net Position	1,412,794	1,500,168
Change in Net Position	\$ 87,374	\$ 24,346
Percentage Change	6%	2%

Table A-2		
Condensed Statement of Activities	Governmental Activities	
	2014	2015
Revenues		
Program Revenues		
Charges for Services	\$ 511,291	\$ 622,013
Operating Grants	439,780	598,939
General Revenues		
Pension Revenue	-	23,326
Investment Earnings	3,008	2,382
Total Revenues	954,079	1,246,660
Expenses		
General Government	1,046,922	1,222,314
Economic Development	-	-
Total Expenses	1,046,922	1,222,314
Change in Net Position	(92,843)	24,346
Beginning Net Position	1,593,011	1,500,168
Ending Net Position	\$ 1,500,168	\$ 1,524,514

Analysis of Overall Financial Position

Governmental Activities:

District III's overall financial position improved slightly, with a 2%, or \$24,000, increase in net assets.

The revenue from ordinary revenue-producing projects increased by 22% or about \$110,000, revenue from grants increased by 36% or about \$159,000, while ordinary operating expenses increased by 17% or about \$175,000.

The staffing level held constant. Employee experience, institutional history, and contacts with other agencies are important factors in District III's success. Staff continuity, which is vital to District III's financial health, was maintained.

Local government support remained steady, with the total membership at 16 counties, 3 tribes, and 59 cities/towns. All local government members maintained their membership in District III for 2015, with the exception of one Tribe. Dues for 2015 were increased by the change in the Consumer Price Index in 2013, or 1.7%.

The Special Revenue Fund consists of money received in past years from the State of South Dakota and donations from area businesses for the purpose of economic development activities. No expenditures were made from this fund in 2015.

Analysis of Balances and Transactions of Individual Funds

Changes in year-end fund balance:

	<u>2014</u>	<u>2015</u>	<u>Change</u>
General Fund	\$ 1,495,519	\$ 1,519,864	\$ 24,345
Special Revenue Fund	<u>4,649</u>	<u>4,650</u>	<u>1</u>
Total Net Position	<u>\$ 1,500,168</u>	<u>\$ 1,524,514</u>	<u>\$ 24,346</u>

The financial analysis of District III's funds mirrors those highlighted in the analysis of governmental activities presented under Analysis of Overall Financial Position.

\$300,000 of the General Fund is restricted for use in economic development activities.

Significant Capital Asset and Long-Term Debt Activity

Capital Assets, Net of Depreciation		
	Governmental	Activities
	2014	2015
Land	\$ 24,189	\$ 24,189
Building and Improvements	136,395	125,353
Furniture and Equipment	<u>17,036</u>	<u>10,562</u>
Capital Assets (net)	<u>\$ 177,620</u>	<u>\$ 160,104</u>

District III follows a capital assets policy which expenses all items with a cost of less than \$5,000.

During 2015, a printer and video projector were sold or disposed of, and no equipment was purchased.

Long-Term Liabilities				
	Governmental		Total Change	
	Activities		Dollar Amount	Percentage Amount
	2014	2015		
Compensated Absences	<u>\$ 35,249</u>	<u>\$ 36,913</u>	<u>\$ 1,664</u>	<u>4.72%</u>
Total Long-Term Liabilities	<u>\$ 35,249</u>	<u>\$ 36,913</u>	<u>\$ 1,664</u>	<u>4.72%</u>

The long-term liabilities represents annual leave accrued which would be payable to employees upon termination.

District III has no other long-term debt, and no plans for additional facilities or services.

Currently Known Conditions Expected to have a Significant Effect on Next Year's Operations

The number of counties, Tribes, and towns/cities maintaining membership in District III for 2016 will remain the same as for 2015. The total dues for 2016 will increase 1.2%, to correspond with the 2014 increase in the Consumer Price Index.

Overall revenues for 2016 are expected to increase by about 5%, and expenses are expected to increase by about 10%.

Basic governmental services, such as grant-writing and zoning ordinance consultation, should remain steady.

Staffing is expected to be maintained at the 2015 level.

Contacting District III's Financial Management

This financial report is designed to provide a general overview of District III's finances and to demonstrate District III's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Planning & Development District III
PO Box 687
Yankton, SD 57078
(605)665-4408

The component units do not issue separate financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Primary Government	Total Component Units
ASSETS		
Cash and cash equivalents	\$ 294,545	\$ 763,969
Certificates of deposit	626,361	787,452
Accounts receivable, less allowance of \$-0-	45,060	-
Due from other governments	194,365	-
Accrued interest receivable	1,526	12,167
Receivable from component unit	14,893	-
Prepaid expenses	20,831	1,852
Deposit	9,704	-
Promise to give, less allowance of \$-0-	300,000	-
Notes receivable, net of allowance for loan losses of \$142,553	38,670	3,779,316
Net pension asset	159,816	-
Assets held for others	5,854	49,904
Capital Assets:		
Capital assets, not being depreciated	24,189	-
Capital assets, being depreciated, net	<u>135,915</u>	<u>-</u>
Total Assets	<u>1,871,729</u>	<u>5,394,660</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>279,127</u>	<u>-</u>
LIABILITIES		
Accounts payable	38,692	-
Payable to primary government	-	15,708
Interest payable	-	3,246
Revenue received in advance:		
Dues	5,026	
Fees for service	4,045	
Assets held on behalf of others	5,854	49,904
Long-term liabilities:		
Portion due or payable within one year:		
Notes payable	-	190,165
Compensated absences	36,913	-
Portion due or payable after one year:		
Notes payable	<u>-</u>	<u>1,330,051</u>
Total Liabilities	<u>90,530</u>	<u>1,589,074</u>
DEFERRED INFLOWS OF RESOURCES		
Promise to give related to future periods	300,000	-
Pension related deferred inflows	<u>235,812</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>535,812</u>	<u>-</u>
NET POSITION		
Investment in capital assets	160,104	-
Restricted for:		
Insurance deposit	9,704	-
Economic development	4,650	-
SDRS Pension	203,131	
Debt covenant	-	88,200
Unrestricted	<u>1,146,925</u>	<u>3,718,083</u>
Total Net Position	<u>\$ 1,524,514</u>	<u>\$ 3,806,283</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Expenses	Program Revenues		Net Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government	Component Unit
Primary government:					
Governmental activities:					
General government	\$ 1,222,314	\$ 622,013	\$ 598,939	\$ (1,362)	
Total Primary Government	\$ 1,222,314	\$ 622,013	\$ 598,939	(1,362)	
Total Component Units	\$ 109,216	\$ 163,323	\$ 289,635		\$ 343,742
General revenues:					
Pension revenue				23,326	0
Unrestricted investment earnings				2,382	4,057
Change in net position				24,346	347,799
Net position, beginning				1,319,951	3,458,484
Prior period adjustment				180,217	-
Net position, beginning, restated				1,500,168	3,458,484
Net position, ending				\$ 1,524,514	\$ 3,806,283

The accompanying notes are an integral part of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General Fund	Economic Development Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 289,895	\$ 4,650	\$ 294,545
Certificates of deposits	626,361	-	626,361
Accounts receivable, less allowance of \$-0-	45,060	-	45,060
Due from other governments	194,365	-	194,365
Accrued interest receivable	1,526	-	1,526
Due from component unit	14,893	-	14,893
Prepaid expenses	20,831	-	20,831
Deposits	9,704	-	9,704
Promise to give, less allowance of \$-0-	300,000	-	300,000
Note receivable	38,670	-	38,670
Assets held on behalf of others			
Cash	<u>5,854</u>	<u>-</u>	<u>5,854</u>
Total Assets	<u>\$ 1,547,159</u>	<u>\$ 4,650</u>	<u>\$ 1,551,809</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 38,692	\$ -	\$ 38,692
Assets held for others	5,854	-	5,854
Revenue received in advance			
Dues	5,026	-	5,026
Fees for service	<u>4,045</u>	<u>-</u>	<u>4,045</u>
Total Liabilities	<u>53,617</u>	<u>-</u>	<u>53,617</u>
Deferred Inflows of Resources:			
Promise to give related to future periods	<u>300,000</u>	<u>-</u>	<u>300,000</u>
Fund Balances:			
Nonspendable:			
Prepaid expenses	20,831	-	20,831
Insurance deposit	9,704	-	9,704
Notes receivable - long-term portion	25,780	-	25,780
Restricted:			
Economic development	-	4,650	4,650
Unassigned	<u>1,137,227</u>	<u>-</u>	<u>1,137,227</u>
Total Fund Balances	<u>1,193,542</u>	<u>4,650</u>	<u>1,198,192</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,547,159</u>	<u>\$ 4,650</u>	<u>\$ 1,551,809</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015

Total fund balances for governmental funds		\$ 1,198,192
Amounts reported for governmental activities in the statement of net position are different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds		159,816
Capital assets used in governmental activities are not financial resources, therefore are not reported in the funds. Those assets consist of:		
Land	\$ 24,189	
Building and improvements, net of \$67,858 accumulated depreciation	125,353	
Equipment, net of \$151,562 accumulated depreciation	<u>10,562</u>	160,104
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds		279,127
Accrued leave payable is not due and payable in the current period and therefore is not reported in the funds. Balance at December 31, 2015 is:		
Compensated absences		(36,913)
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds		<u>(235,812)</u>
Total net position of governmental activities		\$ <u>1,524,514</u>

The accompanying notes are an integral part of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

	General Fund	Economic Development Fund	Total Governmental Funds
REVENUES			
Operating Grants and Contracts:			
From federal agencies			
Grants:			
Department of Commerce	\$ 229,050	\$ -	\$ 229,050
Small Business Administration	65,000	-	65,000
Contracts:			
Department of Transportation	70,730	-	70,730
Department of Environmental Protection	41,700	-	41,700
Department of Defense	40,039	-	40,039
State funding	117,500	-	117,500
Local funding	34,920	-	34,920
Charges for Goods and Services:			
Fees for services	263,093	-	263,093
Local dues	301,436	-	301,436
Component unit fees	57,484	-	57,484
General Revenue:			
Interest income	2,381	1	2,382
Total Revenues	<u>1,223,333</u>	<u>1</u>	<u>1,223,334</u>
EXPENDITURES			
General Government:			
Personnel	684,679	-	684,679
Employee benefits and payroll taxes	155,714	-	155,714
Occupancy	22,913	-	22,913
Consulting	43,950	-	43,950
Travel and vehicle	27,766	-	27,766
Equipment	35,733	-	35,733
Materials and supplies	18,775	-	18,775
Professional fees	10,474	-	10,474
Postage	3,820	-	3,820
Insurance	7,541	-	7,541
Miscellaneous	3,165	-	3,165
Advertising	2,142	-	2,142
Grant to subrecipient - component unit	186,050	-	186,050
Total Expenditures	<u>1,202,722</u>	<u>-</u>	<u>1,202,722</u>
Change in Fund Balances	20,611	1	20,612
Fund Balances, Beginning of Year	<u>1,172,931</u>	<u>4,649</u>	<u>1,177,580</u>
Fund Balances, End of Year	<u>\$ 1,193,542</u>	<u>\$ 4,650</u>	<u>\$ 1,198,192</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

Change in fund balances - total governmental funds	\$ 20,612
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$17,516) exceeded capital outlay (\$-0-) in the current period.	(17,516)
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits.	(1,664)
Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds.	(412)
Pension revenues in the Statement of Activities do not provide current financial resources and are not reported as revenues in the funds.	<u>23,326</u>
Change in net position of governmental activities	<u>\$ 24,346</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

**COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2015**

	<u>Areawide Business Council, Inc.</u>	<u>PrairieLand Housing Development</u>	<u>Total Component Units</u>
ASSETS			
Cash and cash equivalents	\$ 763,755	\$ 214	\$ 763,969
Certificates of deposit	787,452	-	787,452
Accrued interest receivable	12,167	-	12,167
Prepaid expense	1,852	-	1,852
Notes receivable, net of allowance for loan losses of \$142,553	3,779,316	-	3,779,316
Assets held for others:			
Cash	49,863	-	49,863
Notes receivable, net of allowance for loan losses of \$-0-	<u>41</u>	<u>-</u>	<u>41</u>
Total Assets	<u>5,394,446</u>	<u>214</u>	<u>5,394,660</u>
LIABILITIES			
Due to primary government	15,708	-	15,708
Accrued interest expense	3,246	-	3,246
Assets held for others	49,904	-	49,904
Notes payable	<u>1,520,216</u>	<u>-</u>	<u>1,520,216</u>
Total Liabilities	<u>1,589,074</u>	<u>-</u>	<u>1,589,074</u>
NET POSITION			
Restricted:			
Debt covenant	88,200	-	88,200
Unrestricted	<u>3,717,869</u>	<u>214</u>	<u>3,718,083</u>
Total Net Position	<u>\$ 3,806,069</u>	<u>\$ 214</u>	<u>\$ 3,806,283</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

COMBINING STATEMENT OF ACTIVITIES
 COMPONENT UNITS
 YEAR ENDED DECEMBER 31, 2015

	Areawide Business Council, Inc.	Prairieland Housing Development	Total Component Units
OPERATING REVENUES			
Interest income - loans	\$ 163,323	\$ -	\$ 163,323
State funding	100,000	-	100,000
Contributions	23,585	-	23,585
Passed through grant from primary government			
Department of Commerce	<u>166,050</u>	<u>-</u>	<u>166,050</u>
Total Operating Revenues	<u>452,958</u>	<u>-</u>	<u>452,958</u>
OPERATING EXPENSES			
Payments to primary government	62,385	-	62,385
Provision for loan loss	3,973	-	3,973
Insurance	9,768	-	9,768
Professional fees	8,787	-	8,787
Contract services	3,511	-	3,511
Honorariums	3,550	-	3,550
Miscellaneous	2,158	10	2,168
Travel	<u>1,195</u>	<u>-</u>	<u>1,195</u>
Total Operating Expenses	<u>95,327</u>	<u>10</u>	<u>95,337</u>
Operating income (loss)	<u>357,631</u>	<u>(10)</u>	<u>357,621</u>
NONOPERATING (EXPENSES) REVENUES			
Interest expense	(13,879)	-	(13,879)
Interest income - savings	<u>4,057</u>	<u>-</u>	<u>4,057</u>
Total Nonoperating (Expenses) Revenues	<u>(9,822)</u>	<u>-</u>	<u>(9,822)</u>
Change in net position	347,809	(10)	347,799
Net Position, beginning of year	<u>3,458,260</u>	<u>224</u>	<u>3,458,484</u>
Net Position, end of year	<u>\$ 3,806,069</u>	<u>\$ 214</u>	<u>\$ 3,806,283</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Planning and Development District III (the District) is a single purpose government district established under Executive Order 70-7 by the State of South Dakota's governor's office and is governed by an elected eight-member executive board. The District service area includes 16 counties in South Central South Dakota. Its mission is to provide comprehensive development assistance to its membership and the private sector. The District offers a full range of services that help the region maintain public services and expand economic opportunities.

Component Units

In evaluating the District as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the District may be financially accountable and, as such, should be included within the District's financial statements. The District is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the District. Organizations for which the District is not financially accountable are also included when doing so is necessary in order to prevent the District's financial statements from being misleading.

Discretely Presented Component Units

Component units not meeting the criteria for blending with the primary government are discretely presented in the financial statements. Discrete presentation entails reporting component unit financial data in a column separate from the financial data of the District's primary government to emphasize that they are legally separate from the District.

The component unit column in the financial statements includes the financial data of the District's component units; Areawide Business Council, Inc. (ABC), a non-profit organization, and Prairieland Housing Development (PHD), a non-profit organization.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Financial Reporting Entity, continued

ABC was established in 1982 to promote and assist the growth and development of business and industrial opportunity by use of a revolving loan program as a long-term capital lender in fourteen designated counties in South Dakota.

- a. The Revolving Loan Fund program is subject to the rules and regulations of the Department of Commerce, which includes the provision, that a non-funded allowance for loan losses is permitted.
- b. The Intermediary Relending Program is subject to the rules and regulations of the Department of Agriculture, which include the provision, that an allowance for loan losses is permitted. An allowance for loan losses is initially set at 4.5 percent of the original loan balance.

PHD was incorporated in 2004, as an entity to assist in providing affordable housing in small towns in the District's service area. The housing will be sold to persons meeting the income and asset limits set by the South Dakota Housing Development Authority.

The component units do not issue separate financial statements.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between the primary government and discretely presented component units. The primary government consists solely of governmental activities generally financed through intergovernmental revenues and other non-exchange transactions.

The Statement of Net Position reports all financial and capital resources in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted and unrestricted.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

The Statement of Activities presents the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. *Program revenues* include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The District presently has no proprietary or fiduciary funds.

The District has determined that both government funds will always be considered to be major funds and reports them as follows:

General Fund – The General Fund is the main operating fund of the District. It is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of South Dakota and the bylaws of the District.

Economic Development Fund – This Special Revenue Fund accounts for revenue derived from grants and contributions that are used to promote economic development in the District. The Special Revenue Fund is considered a major fund for reporting purposes.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both the governmental and component unit activities are presented using the economic resources measurement focus applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the component unit types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities and component units are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are generally recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. A 60 day availability period is used for recognition of governmental fund revenues. The revenues which are accrued at December 31, 2015, consist primarily of grants receivable.

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2015**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Measurement Focus and Basis of Accounting, continued

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported revenue received in advance or deferred inflows of financial resources are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash or cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SSCL) 4-5-6.

Notes Receivable

Notes receivable in the component unit consist of revolving loan funds that are generally not expected or scheduled to be collected in the subsequent year.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Allowance for Loan Losses, continued

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets include land, buildings, vehicles and equipment that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether they are reported in the government-wide or fund financial statements.

Government-wide Statements:

All purchased capital assets are valued at cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net investment in capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 5,000	Straight-line	20-40
Equipment	\$ 5,000	Straight-line	3-15
Vehicles	\$ 5,000	Straight-line	3-5

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. No depreciation expense is recognized.

Long-Term Liabilities

The accounting treatment for long-term liabilities depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities typically consist of notes payable and accrued compensated absences.

Long-term liabilities for the governmental fund are not reported as liabilities in the fund financial statements.

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual leave balances. Full time permanent employees and part-time permanent employees working 20 hours or more per week are granted vacation benefits in prorated amounts to specified maximums. Sick leave accrues to full-time, permanent employees and part time permanent employees working 20 hours or more per week to specified maximums. Employees are entitled to all accrued vacation leave upon termination. Employees will not receive monetary compensation for accrued sick leave upon termination.

All compensated absences of the District are considered current liabilities.

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, the pension expense (revenue), 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.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Pensions, continued

The District's contributions and net pension asset are recognized on an accrual basis of accounting.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the balance sheet may report 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 (expenses) until the applicable future period.

In addition to liabilities, the balance sheet may report 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 (revenues) until the applicable future period.

Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - member dues - All member governments are required to pay dues to the District in order to belong to the organization and receive membership services. Dues are determined by census results and are recognized as revenues in the period they are due.
2. Charges for services - other contract revenues - These are program specific revenues from other than federal, state and member sources.
3. Program-specific operating grants and contributions - These are program specific operating grants arising from mandatory and voluntary non-exchange transactions with other governments which fund the District's programs. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the providers have been met. Such revenue is subject to review by the funding agency. Minor adjustments may result in subsequent periods.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications

Government-wide Statements:

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Nonspendable, Restricted, Committed, Assigned and Unassigned components.

Application of Net Position

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures, continued

- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board of Directors.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

Income Taxes - Component Units

Areawide Business Council, Inc. and Prairieland Housing Development are exempt from income taxes under Section 501(C)(3) of the Internal Revenue Code; accordingly, no provision for income taxes is made in these financial statements.

Indirect Costs

The District employs the use of an indirect cost plan. Allowable indirect costs were 65% of direct labor, allowable fringe benefit rate was 34% of direct labor and allowable indirect facility costs were 6% of direct labor for 2015. Direct costs are charged against each project as costs are paid. A new indirect cost plan is prepared annually. Costs benefiting future periods are capitalized and amortized to expense utilizing the indirect cost plan. Indirect costs are applied ratably to all activities of the District.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America that requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Accordingly, actual results may differ from those estimates.

2. IMPLEMENTATION OF GASB STATEMENT NO. 68 AND GASB STATEMENT NO. 71

As of January 1, 2015, the District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability/asset, deferred outflows of resources, deferred inflows of resources, and pension expense (revenue). The effect of the implementation of these standards on beginning net position is disclosed below and the additional disclosures required by these standards are included in Note 10.

Beginning net position was restated to retroactively report the beginning net position asset and deferred outflows of resources related to contributions made after the measurement date as follows:

Net Position - December 31, 2014, as previously reported	\$1,319,951
Restatement for pension accounting:	
Net Pension Asset	275,395
Pension Related Deferred Outflows of Resources	223,776
Pension Related Deferred Inflows of Resources	<u>(318,954)</u>
Net Position - January 1, 2015, as restated	<u>\$1,500,168</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

3. DEPOSITS AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - Deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

Investments - In general, SDCL 4-5-6 permits funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Investments - As of December 31, 2015, the District and component units had no investments.

Custodial Credit Risk - Deposits - Primary Government - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District has an investment policy, but it does not address custodial credit risk. As of December 31, 2015, the District's deposits were fully insured or collateralized in local banks.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

3. DEPOSITS AND INVESTMENTS, continued

Custodial Credit Risk – Deposits – Component Units – The risk that, in the event of a depository failure, the Component Unit's deposits may not be returned to it. The component units have an investment policy, but it does not address custodial credit risk. As of December 31, 2015, the component units' deposits were fully insured or collateralized in local banks. The component units have \$195,000 in brokered certificates of deposit placed with an investment dealer. They are considered to be fully insured; however, they are held in brokerage accounts and not in safekeeping. Thus, this certificate is subject to custodial credit risk.

Authorized Investments - The District has adopted an investment policy but it does not further limit investments beyond those imposed by statutes. As of December 31, 2015, the District had no investments.

Interest Rate Risk - The District has an investment policy, but it does not limit its investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2015, the District had no investments.

Credit Risk - State law limits eligible investments of the District, as discussed above. The District has an investment policy but it does not further limit its investment choices. As of December 31, 2015, the District had no investments.

Concentration of Credit Risk - The District's investment policy places no limit on the amount that may be invested in any one issuer. As of December 31, 2015, the District had no investments.

4. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements.

Receivables are primarily due from various programs. Management anticipates all short-term receivables to be collected within one year, therefore, no allowance for doubtful accounts has been provided for these receivables.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2015

5. NOTES RECEIVABLE

Primary Government

The following is a summary of note receivable to the primary government:

Note receivable – Component Unit	<u>\$ 38,670</u>
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The following are maturities of long-term note receivable for the primary government:

2016	\$ 12,890
2017	12,890
2018	<u>12,890</u>
	<u>\$ 38,670</u>

Component Unit (ABC)

The following is a summary of the notes receivable for the component unit:

Revolving Loan Fund – EDA	\$ 2,590,332
Intermediary Relending Program	1,319,592
Revolving Loan Fund	<u>11,945</u>
	3,921,869
Less: Allowance for Loan Losses	
Revolving Loan Fund – EDA	(54,114)
Intermediary Relending Program	(88,200)
Revolving Loan Fund	<u>(239)</u>
	<u>\$ 3,779,316</u>

The following are maturities of long-term notes receivable for the component unit:

2016	\$ 734,664
2017	548,071
2018	644,863
2019	674,526
Thereafter	<u>1,319,745</u>
	<u>\$ 3,921,869</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2015

5. NOTES RECEIVABLE, continued

An analysis of the change in the allowance for loan losses for the component unit is as follows:

Beginning balance	\$ 262,547
Provision for loan losses	(16,859)
Recoveries	-
Loans charged off	<u>(103,135)</u>
	<u>\$ 142,553</u>

6. PROMISE TO GIVE

The District received a conditional promise to give cash with an outstanding balance of \$300,000 at December 31, 2015. This contribution is to be used as a regional revolving loan fund that will be administered by the District's component unit, ABC. The cash received in the fiscal year ended December 31, 2015 was \$20,000, which was passed through to ABC.

Promise receivable in less than one year	\$ 20,000
Promise receivable in one to five years	100,000
Promise receivable in more than five years	180,000
Less allowance for uncollectible promise receivable	<u>-</u>
	<u>\$ 300,000</u>

The outstanding balance of \$300,000 is offset by a deferred inflow of resources at December 31, 2015.

7. CHANGES IN CAPITAL ASSETS

Primary Government

A summary of changes in the primary government's capital assets is as follows:

Primary Government	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 24,189	\$ -	\$ -	\$ 24,189
Total capital assets not being depreciated	<u>24,189</u>	<u>-</u>	<u>-</u>	<u>24,189</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2015

7. CHANGES IN CAPITAL ASSETS, continued

Primary Government	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	193,211	-	-	193,211
Equipment	99,686	-	7,732	91,954
Vehicles	70,169	-	-	70,169
Total capital assets being depreciated	<u>363,066</u>	<u>-</u>	<u>7,732</u>	<u>355,334</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	56,817	11,042	-	67,859
Equipment	98,483	141	7,732	90,892
Equipment	54,335	6,333	-	60,668
Total capital assets being depreciated	<u>209,635</u>	<u>17,516</u>	<u>7,732</u>	<u>219,419</u>
Total capital assets being depreciated, net	<u>153,431</u>	<u>(17,516)</u>	<u>-</u>	<u>135,915</u>
Governmental activities capital assets, net	<u>\$ 177,620</u>	<u>\$ (17,516)</u>	<u>\$ -</u>	<u>\$ 160,104</u>

Depreciation expense of \$17,516 was all charged to general government.

Component Units

The component units do not report any capital assets.

8. LEASE COMMITMENTS

Operating lease obligations are primarily for rental of office equipment. Lease expenses for the year were \$9,753.

Future minimum lease payments required by the primary government for non-cancellable operating leases are:

2016	\$ 8,826
2017	2,172
2018	2,172
2019	<u>543</u>
	<u>\$ 13,713</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2015

9. LONG-TERM LIABILITIES

Primary Government:

A summary of changes in the primary government's long-term liabilities is as follows:

Primary Government	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Governmental activities:</i>					
Compensated absences	\$ 35,249	\$ 36,913	\$ (35,249)	\$ 36,913	\$ 36,913
Total	<u>\$ 35,249</u>	<u>\$ 36,913</u>	<u>\$ (35,249)</u>	<u>\$ 36,913</u>	<u>\$ 36,913</u>

Component Units:

A summary of changes in the component unit's long-term liabilities is as follows:

Component Units	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$1,709,730	\$ -	\$ (189,514)	\$1,520,216	\$ 190,165
Total	<u>\$1,709,730</u>	<u>\$ -</u>	<u>\$ (189,514)</u>	<u>\$1,520,216</u>	<u>\$ 190,165</u>

The component units' notes payable, as of December 31, 2015, are comprised of the following:

\$750,000 - Intermediary Relending Program #3,
Dated October 16, 2006, 30 year term;
1.00% interest rate, annual payments;
Secured by notes receivable and reserves. \$ 600,269

\$750,000 - Intermediary Relending Program #2,
Dated October 14, 2003, 30 year term;
1.00% interest rate, annual payments;
Secured by notes receivable and reserves. 521,989

\$375,000 - Intermediary Relending Program #1,
Dated August 1, 2000, 30 year term;
1.00% interest rate, annual payments;
Secured by notes receivable and reserves. 220,399

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2015

9. LONG-TERM LIABILITIES, continued

\$700,000 - East River Electric Dated February 20, 2007, 9 year term; 0.00% interest rate, monthly payments; Secured by notes receivable.	97,222
\$300,000 - East River Electric Dated February 20, 2007, 9 year term; 0.00% interest rate, monthly payments; Secured by notes receivable.	41,667
\$128,900 - Primary Government Dated June 5, 2008, 10 year term; 0.00% interest rate, annual payments; Unsecured.	<u>38,670</u>
Total Notes Payable - Component Units	<u><u>\$ 1,520,216</u></u>

Debt service requirements on notes payable for the component units, as of December 31, 2015, is as follows:

Year Ending December 31,	Principal	Interest	Total
2016	\$ 190,166	\$ 13,427	\$ 203,593
2017	107,493	12,765	120,258
2018	80,384	12,097	92,481
2019	68,170	11,422	79,592
2020	68,851	10,740	79,591
2021 - 2025	354,720	43,235	397,955
2026 - 2030	372,445	25,131	397,576
2031 - 2035	246,495	8,071	254,566
2036 - 2037	<u>31,492</u>	<u>315</u>	<u>31,807</u>
	<u><u>\$1,520,216</u></u>	<u><u>\$ 137,203</u></u>	<u><u>\$1,657,419</u></u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

9. LONG-TERM LIABILITIES, continued

The component unit (ABC) has restricted cash balances totaling \$88,200 for the year ended December 31, 2015, as a Loan Reserve. The Department of Agriculture Intermediary Relending Program (IRP) requires a reserve for loan loss of 4.5% on the outstanding IRP loan balance.

10. PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the year, participate in the SDRS, a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

10. PENSION PLAN, continued

All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014 and 2013 was \$40,864, \$40,856 and \$39,408 respectively, equal to the required contributions each year.

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2015**

10. PENSION PLAN, continued

**Pension Assets, Pension Revenue, and Deferred Outflows of Resources
and Deferred Inflows of Resources to Pensions:**

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the District as of June 30, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$4,060,716
Less proportionate share of total pension liability	<u>3,900,900</u>
Proportionate share of net pension asset	<u>\$ 159,816</u>

At December 31, 2015, the District reported an asset of \$159,816 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the District's proportion was 0.0376811%.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2015

10. PENSION PLAN, continued

For the year ended December 31, 2015, the District recognized pension revenue of \$23,326. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 32,723	\$ -
Changes in assumptions	126,724	-
Net difference between projected and actual earnings on pension plan investments	97,629	235,812
Changes in proportion and difference between the District's contributions and proportionate share of contributions	1,758	-
Commission contributions subsequent to the measurement date	<u>20,293</u>	<u>-</u>
Total	<u>\$ 279,127</u>	<u>\$ 235,812</u>

\$20,293 reported as deferred outflow of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

	<u>Year Ended December 31</u>
2016	\$ 511
2017	511
2018	511
2019	<u>225</u>
Total	<u>\$ 1,758</u>

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2015**

10. PENSION PLAN, continued

Actuarial Assumptions

The total pension asset in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases of service	5.83 percent at entry to 3.87 percent after 30 years
Investment Rate of Return	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.).

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2015

10. PENSION PLAN, continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	<u>2.0%</u>	0.0%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension asset was 7.25 percent through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of liability (asset) to changes in the discount rate

The following presents the District's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's proportionate share of the net pension /liability (asset)	\$ 402,256	\$ (159,816)	\$ (618,138)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

11. COMMITMENTS AND CONTINGENCIES

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2015 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

12. RELATED PARTY TRANSACTIONS

Operating income for the District includes fees of \$57,484 received from its component unit, Areawide Business Council, Inc.

Operating income for the Areawide Business Council, Inc. includes contributions from the District of \$3,584.

13. RISK MANAGEMENT

The District is 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. During the period ended December 31, 2015, the District managed its risks as follows:

Employee Health Insurance

The District purchases health insurance from a commercial insurance carrier.

Liability Insurance

The District purchases insurance coverage for its buildings and contents from a commercial insurance carrier. The deductible for this coverage varies from \$250 to \$1,000.

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2015**

13. **RISK MANAGEMENT, continued**

Liability Insurance, continued

The District is a member of the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the District. The District pays an annual premium to the pool to provide coverage for general liability, auto liability and damage, and errors and omissions of public officials.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The District carries a \$500 deductible for the official liability. The remaining coverage's are \$-0- deductible.

A portion of the member premiums is also allocated to a cumulative reserve fund. After six years, the fund is fully vested and the District would be eligible to receive a refund for the full vested amount.

As of December 31, 2015, the District has a fully vested balance in the cumulative reserve fund of \$9,704.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2015

13. RISK MANAGEMENT, continued

Worker's Compensation

The District joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium, to provide worker's compensation coverage to its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date to the Fund Members. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

REQUIRED SUPPLEMENTARY INFORMATION

PLANNING AND DEVELOPMENT DISTRICT III
SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION ASSET

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>
Association's proportion of the net pension asset	0.0382249%	0.0376811%
Association's proportionate share of net pension asset	\$ 275,395	\$ 159,816
Association's covered-employee payroll	\$ 668,450	\$ 687,950
Association's proportionate share of the net pension asset as a percentage of its covered-employee payroll	41.20%	23.23%
Plan fiduciary net position as a percentage of the total pension asset	107.3%	104.1%

Note: The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of previous fiscal year.

See Independent Auditor's Report

PLANNING AND DEVELOPMENT DISTRICT III

SCHEDULE OF CONTRIBUTIONS

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 40,856	\$ 40,865
Contributions in relation to the contractually required contribution	<u>40,856</u>	<u>\$ 40,865</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Association's covered-employee payroll	\$ 680,937	\$ 681,080
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

See Independent Auditor's Report

SUPPLEMENTARY INFORMATION

PLANNING AND DEVELOPMENT DISTRICT III

SCHEDULE OF INDIRECT COSTS - PRIMARY GOVERNMENT
YEAR ENDED DECEMBER 31, 2015

Indirect Building Costs	
Repairs and maintenance	\$ 7,616
Utilities	5,717
Depreciation	11,184
Insurance	1,252
Supplies	608
Real estate taxes	<u>164</u>
Total Indirect Building Costs	<u>26,541</u>
Indirect Overhead Costs	
Salaries, payroll taxes and benefits	220,075
Supplies and postage	11,805
Travel	12,186
Equipment rent	9,309
Consulting fees	2,616
Insurance	7,541
Professional fees	6,685
Telephone	3,614
Maintenance agreements	8,451
Miscellaneous expense	2,786
Small equipment	6,409
Advertising	<u>2,066</u>
Total Indirect Overhead Costs	<u>293,543</u>
Total Indirect Overhead and Building Costs	<u>320,084</u>
Direct Costs	
Programs	559,514
Fringe benefits	<u>156,666</u>
Total Direct Costs	<u>716,180</u>
Pass-Through Grants	
Grant to Subrecipient - component unit	<u>186,050</u>
Total Expenses - Statement of Activities	<u>\$ 1,222,314</u>

See Independent Auditor's Report

PLANNING AND DEVELOPMENT DISTRICT III

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

FEDERAL FUNDING/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Pass-Through Entity Identifying Number	Expenditures/Disbursements		
			Direct	Pass Through	Total
Primary Government:					
<u>U.S Department of Commerce</u>					
Direct Funding:					
Economic Development - Support for Planning Organizations EDA	11.302		\$ 63,000	\$ -	\$ 63,000
<u>Small Business Administration</u>					
Passed through the University of South Dakota: Small Business Development Center	59.037	USD-1213	-	65,000	65,000
<u>U.S. Department of Defense</u>					
Passed through the University of South Dakota: Procurement Technical Assistance for Business Firms	12.002	USD-1207	-	40,039	40,039
Total Federal Funding - Primary Government			63,000	105,039	168,039
Component Unit:					
<u>U.S Department of Agriculture</u>					
Direct Funding:					
Intermediary Relending Program (Note 3)	10.767		1,408,170	-	1,408,170
<u>U.S Department of Commerce</u>					
Direct Funding:					
Economic Adjustment Assistance (Title IX Revolving Loan Program) (Note 4)	11.307		2,473,117	-	2,473,117
Total Federal Funding - Component Unit			3,881,287	-	3,881,287
Total Federal Funding			\$ 3,944,287	\$ 105,039	\$ 4,049,326

See independent Auditor's Report

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

Note 1:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Planning and Development District III (the District) under programs of the federal government for the year ended December 31, 2015. The accompanying notes are an integral part of this Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the financial statements. The District has elected not to use the 10 percent de minimis indirect cost rate as allowed by Uniform Guidance. Indirect costs are based on actual expenditures determined in accordance with the guidelines established by the grantor agency.

Note 2:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3:

The federal loan programs listed subsequently are administered directly by the District, and balances and transactions relating to these programs are included in the District's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at December 31, 2015 consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2015
10.767	Intermediary Relending Program	\$1,342,657

Note 4:

The District has an Economic Development Agency Revolving Loan Fund that was funded by three individual grants issued by the Department of Commerce in previous years. In 2014, the three individual revolving loan fund grants were consolidated into one revolving loan fund. The amount of federal award that is included in the federal expenditures is presented in the Schedule.

	Consolidated EDA Funded Grant
Balances of notes receivable at December 31, 2015	\$ 2,590,332
Cash balance at December 31, 2015	469,265
Administration expenses paid during fiscal year 2015	53,056
Balance of loans written off - current year	<u>95,578</u>
Total expenditures	3,208,231
Federal share percentage	<u>77.09%</u>
Federal share included as expenditure in the schedule	\$ <u>2,473,117</u>

See independent Auditor's Report

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

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*

To The Board of Directors
Planning and Development District III
Yankton, South Dakota

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 governmental activities, the aggregate discretely presented component units, and each major fund of Planning and Development District III (the District) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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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 District's financial statements are free of 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 determination of financial statement amounts. 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. However, as required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
August 19, 2016

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Planning and Development District III
Yankton, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Planning & Development District III's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2015. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of Planning & Development III is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
August 19, 2016

PLANNING AND DEVELOPMENT DISTRICT III

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015**

SECTION II. FINDINGS - FINANCIAL STATEMENTS

None reported.

**SECTION III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD
PROGRAMS**

None reported.

PLANNING AND DEVELOPMENT DISTRICT III

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Type of auditor's report issued on compliance for major programs Unmodified

Audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200-516(a) _____ yes X no

Identification of major programs:

CFDA Numbers
11.307

Name of Federal Program or Cluster
Economic Adjustment Assistance –
Title IX Revolving Loan Fund

Dollar Threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

PLANNING AND DEVELOPMENT DISTRICT III

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
YEAR ENDED DECEMBER 31, 2015**

SECTION II. FINDINGS - FINANCIAL STATEMENTS

There are no financial statement audit findings reported.

SECTION III. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS

There are no major federal award program findings reported.