

PLANNING AND DEVELOPMENT DISTRICT III

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2019

PLANNING AND DEVELOPMENT DISTRICT III

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INDEPENDENT AUDITOR'S REPORT

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

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, 2019, 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.

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.

Table with 5 columns: Office Location, Address, PO Box, State/Zip, and Phone Number. Rows include Madison Office, Yankton Office, and Sioux Falls Office.

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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 the District, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of the District's proportionate share of net pension liability (asset) and the schedule of the 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 an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 September 21, 2020 on our consideration of the District's internal control over financial reporting and on 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 effectiveness of the District's 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.

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
September 21, 2020

PLANNING AND DEVELOPMENT DISTRICT III

STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Primary Government	Total Component Units
ASSETS		
Cash and cash equivalents	\$ 201,118	\$ 1,225,211
Certificates of deposit	803,000	1,086,000
Accounts receivable, less allowance of \$-0-	226,221	-
Due from other governments	158,426	-
Accrued interest receivable	10,616	18,355
Receivable from component unit	19,345	-
Prepaid expenses	20,391	1,830
Deposit	20,199	-
Promise to give, less allowance of \$-0-	100,000	-
Notes receivable, net of allowance for loan losses of \$138,991	-	3,710,796
Assets held for others	3,627	49,829
Net pension asset	3,833	-
Capital Assets:		
Capital assets, not being depreciated	24,189	-
Capital assets, being depreciated, net	<u>110,082</u>	<u>-</u>
 Total Assets	 <u>1,701,047</u>	 <u>6,092,021</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>173,446</u>	<u>-</u>
LIABILITIES		
Accounts payable	8,536	-
Due to primary government	-	19,345
Interest payable	-	2,572
Revenue received in advance:		
Dues	3,190	-
Fees for service	64,545	-
Assets held on behalf of others	3,627	49,829
Long-term liabilities:		
Portion due or payable within one year:		
Notes payable	-	68,577
Compensated absences	67,430	-
Portion due or payable after one year:		
Notes payable	<u>-</u>	<u>1,005,409</u>
 Total Liabilities	 <u>147,328</u>	 <u>1,145,732</u>
DEFERRED INFLOWS OF RESOURCES		
Promise to give related to future periods	100,000	-
Pension related deferred inflows	<u>80,627</u>	<u>-</u>
 Total Deferred Inflows of Resources	 <u>180,627</u>	 <u>-</u>
NET POSITION		
Investment in capital assets	134,271	-
Restricted for:		
Insurance deposit	20,199	-
SDRS Pension	96,652	-
Debt covenant	-	64,346
Unrestricted	<u>1,295,416</u>	<u>4,881,943</u>
 Total Net Position	 <u>\$ 1,546,538</u>	 <u>\$ 4,946,289</u>

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

PLANNING AND DEVELOPMENT DISTRICT III

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Expenses	Program Revenues		Net Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government	Component Units
Primary government:					
Governmental activities:					
General government	\$ 1,277,848	\$ 791,252	\$ 443,501	\$ (43,095)	
Total Primary Government	<u>\$ 1,277,848</u>	<u>\$ 791,252</u>	<u>\$ 443,501</u>	(43,095)	
Total Component Units	<u>\$ 98,757</u>	<u>\$ 152,502</u>	<u>\$ 173,209</u>		\$ 226,954
General revenues:					
Unrestricted investment earnings				<u>17,983</u>	<u>25,131</u>
Change in net position				(25,112)	252,085
Net position, beginning				<u>1,571,650</u>	<u>4,694,204</u>
Net position, ending				<u>\$ 1,546,538</u>	<u>\$ 4,946,289</u>

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

PLANNING AND DEVELOPMENT DISTRICT III

BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2019

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 201,118
Certificates of deposits	803,000
Accounts receivable, less allowance of \$-0-	226,221
Due from other governments	158,426
Due from component unit	19,345
Accrued interest receivable	10,616
Prepaid expenses	20,391
Deposits	20,199
Promise to give, less allowance of \$-0-	100,000
Assets held on behalf of others:	
Cash	<u>3,627</u>
 Total Assets	 <u>\$ 1,562,943</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 8,536
Assets held for others	3,627
Revenue received in advance	
Dues	3,190
Fees for service	<u>64,545</u>
 Total Liabilities	 <u>79,898</u>
 Deferred Inflows of Resources:	
Promise to give related to future periods	<u>100,000</u>
 Fund Balances:	
Nonspendable:	
Prepaid expenses	20,391
Insurance deposit	20,199
Unassigned	<u>1,342,455</u>
 Total Fund Balances	 <u>1,383,045</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 1,562,943</u>

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

PLANNING AND DEVELOPMENT DISTRICT III
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019

Total fund balances for governmental fund		\$ 1,383,045
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, therefore are not reported in the funds. Those assets consist of:		
Net pension liability (asset) reported in governmental activities is not a spendable financial resource and therefore is not reported in the funds		3,833
Land	\$ 24,189	
Building and improvements, net of \$94,503 accumulated depreciation	105,387	
Equipment, net of \$144,273 accumulated depreciation	<u>4,695</u>	134,271
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds		173,446
Accrued leave payable is not due and payable in the current period and therefore is not reported in the funds. Balance at December 31, 2019 is:		
Compensated absences		(67,430)
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds		<u>(80,627)</u>
Total net position of governmental activities		<u>\$ 1,546,538</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 BALANCE:
GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2019

	<u>General Fund</u>
REVENUES	
Operating Grants and Contracts:	
From federal agencies	
Grants:	
Department of Commerce	\$ 70,000
Small Business Administration	74,334
Department of Defense	40,039
Contracts:	
Department of Transportation	79,949
Department of Environmental Protection	58,400
Department of Revenue	3,279
State funding	110,500
Local funding	7,000
Charges for Goods and Services:	
Fees for services	423,796
Local dues	298,150
Component unit fees	69,306
General Revenue:	
Interest income	<u>17,983</u>
Total Revenues	<u>1,252,736</u>
EXPENDITURES	
General Government:	
Personnel	808,218
Employee benefits and payroll taxes	183,136
Consulting	37,222
Equipment	34,665
Travel and vehicle	26,844
Occupancy	19,360
Professional fees	18,336
Materials and supplies	12,931
Insurance	5,523
Postage	2,515
Advertising	638
Miscellaneous	<u>334</u>
Total Expenditures	1,149,722
Excess of revenues over expenditures	<u>103,014</u>
Net change in Fund Balances	103,014
Fund Balances, Beginning of Year	<u>1,280,031</u>
Fund Balances, End of Year	<u>\$ 1,383,045</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 FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Change in fund balances - total governmental fund	\$ 103,014
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 (\$12,789) exceeded capital outlay (\$-0-) in the current period.	(12,789)
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.	(5,367)
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>(109,970)</u>
Change in net position of governmental activities	<u>\$ (25,112)</u>

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

PLANNING AND DEVELOPMENT DISTRICT III

STATEMENT OF NET POSITION
 COMPONENT UNITS
 DECEMBER 31, 2019

	Areawide Business Council, Inc.	Prairieland Housing Development	Total Component Units
ASSETS			
Cash and cash equivalents	\$ 1,224,997	\$ 214	\$ 1,225,211
Certificates of deposit	1,086,000	-	1,086,000
Accrued interest receivable	18,355	-	18,355
Prepaid expense	1,830	-	1,830
Assets held for others:			
Cash	49,829	-	49,829
Notes receivable, net of allowance for loan losses of \$138,991	<u>3,710,796</u>	<u>-</u>	<u>3,710,796</u>
Total Assets	<u>6,091,807</u>	<u>214</u>	<u>6,092,021</u>
LIABILITIES			
Due to primary government	19,345	-	19,345
Accrued interest expense	2,572	-	2,572
Assets held for others	49,829	-	49,829
Long-term liabilities			
Portion due or payable within one year:			
Notes payable	68,577	-	68,577
Portion due or payable after one year:			
Notes payable	<u>1,005,409</u>	<u>-</u>	<u>1,005,409</u>
Total Liabilities	<u>1,145,732</u>	<u>-</u>	<u>1,145,732</u>
NET POSITION			
Restricted:			
Debt covenant	64,346	-	64,346
Unrestricted	<u>4,881,729</u>	<u>214</u>	<u>4,881,943</u>
Total Net Position	<u>\$ 4,946,075</u>	<u>\$ 214</u>	<u>\$ 4,946,289</u>

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

PLANNING AND DEVELOPMENT DISTRICT III

STATEMENT OF ACTIVITIES
 COMPONENT UNITS
 YEAR ENDED DECEMBER 31, 2019

	Areawide Business Council, Inc.	Prairieland Housing Development	Total Component Units
OPERATING REVENUES			
Interest income - loans	\$ 152,502	\$ -	\$ 152,502
Contributions	173,209	-	173,209
Total Operating Revenues	<u>325,711</u>	<u>-</u>	<u>325,711</u>
 OPERATING EXPENSES			
Payments to primary government	75,035	-	75,035
Insurance	8,669	-	8,669
Professional fees	8,832	-	8,832
Contract services	219	-	219
Honorariums	2,400	-	2,400
Loan loss provision	(10,989)	-	(10,989)
Travel	983	-	983
Miscellaneous	2,391	-	2,391
Total Operating Expenses	<u>87,540</u>	<u>-</u>	<u>87,540</u>
Operating income	<u>238,171</u>	<u>-</u>	<u>238,171</u>
 NONOPERATING (EXPENSES) REVENUES			
Interest expense	(11,217)	-	(11,217)
Interest income - savings	25,131	-	25,131
Total Nonoperating (Expenses)	<u>13,914</u>	<u>-</u>	<u>13,914</u>
Income (loss) before contributions and transfers	252,085	-	252,085
Change in net position	252,085	-	252,085
Net Position, beginning of year	<u>4,693,990</u>	<u>214</u>	<u>4,694,204</u>
Net Position, end of year	<u>\$ 4,946,075</u>	<u>\$ 214</u>	<u>\$ 4,946,289</u>

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

PLANNING AND DEVELOPMENT DISTRICT III

SCHEDULE OF CASH FLOWS
COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2019

	Areawide Business Council, Inc.	Prairieland Housing Development	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 145,998	\$ -	\$ 145,998
Receipts from grantors and donors	33,209	-	33,209
Payments to others for goods and services	<u>(96,138)</u>	<u>-</u>	<u>(96,138)</u>
Net cash provided by operating activities	<u>83,069</u>	<u>-</u>	<u>83,069</u>
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES			
Transfer from primary government	<u>140,000</u>	<u>-</u>	<u>140,000</u>
Net cash provided by noncapital financing activities	<u>140,000</u>	<u>-</u>	<u>140,000</u>
CASH FLOWS USED IN CAPITAL FINANCING ACTIVITIES			
Interest payments on long-term debt	(11,422)	-	(11,422)
Principal payments on long-term debt	<u>(68,173)</u>	<u>-</u>	<u>(68,173)</u>
Net cash (used in) capital financing activities	<u>(79,595)</u>	<u>-</u>	<u>(79,595)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income on deposits	25,131	-	25,131
Advances made on notes receivable	(421,500)	-	(421,500)
Payments made on notes receivable	629,108	-	629,108
Net purchases of certificates of deposit	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Net cash provided by investing activities	<u>32,739</u>	<u>-</u>	<u>32,739</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	176,213	-	176,213
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	<u>1,048,784</u>	<u>214</u>	<u>1,048,998</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 1,224,997</u>	<u>\$ 214</u>	<u>\$ 1,225,211</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 238,171	\$ -	\$ 238,171
Adjustments to reconcile operating income to net cash provided by operating activities:			
Loan loss provision	(10,989)	-	(10,989)
Change in operating assets and liabilities:			
(Increase) decrease in:			
Interest receivable	(6,870)	-	(6,870)
Prepaid assets	269	-	269
(Decrease) Increase in:			
Payable to primary government	<u>2,488</u>	<u>-</u>	<u>2,488</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 223,069</u>	<u>\$ -</u>	<u>\$ 223,069</u>

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

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

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's Governing Board 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.

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.

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.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Financial Reporting Entity, continued

Discretely Presented Component Units, continued

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. A cash reserve 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 and deferred outflows of resources; minus liabilities and deferred inflows of resources; equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted and unrestricted.

The Statement of Activities presents a comparison between direct expenses of a given function and 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the District and its component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

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.

An emphasis is placed on major funds within governmental category. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

- Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of the individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined, or
- Management has elected to classify one or more governmental funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

All of the District's activities are accounted for within the General Fund, which is a governmental fund type. The GASB sets forth minimum criteria for the determination of major funds. As all activities are accounted for within this fund, it is presented as a major governmental fund described as follows:

General Fund – the General Fund is the main operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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 used to pay the bills of the current period. A 60-day availability period is used for recognition of governmental fund revenues. The revenues accrued at December 31, 2019, consist primarily of grants receivable.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

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.

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 or presented as revenue when recoveries exceed bad debt expense.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's 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.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Expenses/expenditures are recognized on the consumption method.

Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets 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 the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements

All purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities, with net capital assets reflected in the statement of net position. Accumulated depreciation is reported on the government-wide statement of net position.

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

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 financial 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 years
Equipment	\$ 5,000	Straight-line	3-15 years
Vehicles	\$ 5,000	Straight-line	3-5 years

Land is an inexhaustible capital asset and is not depreciated.

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.

Compensated Absences

The liability for compensated absences reported in the government-wide financial 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 leave and sick leave benefits in prorated amounts to specified maximums. Employees are entitled to all accrued vacation leave upon termination. However, employees will not receive monetary compensation for accrued sick leave upon termination; therefore, no liability is reported for accrued sick leave.

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 compensated absences.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities, continued

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due.

Pensions

For purposes of measuring the net pension liability (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.

The District's contributions and net pension liability (asset) are recognized on the accrual basis of accounting.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position and fund 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 statement of net position and fund 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:

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Program Revenues, continued

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.

Charges for services - other contract revenues - These are program specific revenues from other than federal, state and member sources.

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.

Equity Classifications

Government-wide Financial Statements:

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

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.

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.

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.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or 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.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, which is prepared annually. The plan allocates labor and fringe benefits based on that plan. Direct costs are charged against each project as costs are paid. 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.

Use of Estimates

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet, and revenue and expenditures or expenses for the period. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

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

Deposits – The District's cash 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.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

2. DEPOSITS AND INVESTMENTS, continued

Investments – In general, SDCL 4-5-6 permits the District funds to be invested only 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) above; or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to 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.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The deposit policies of the primary government and its component units do not address custodial credit risk.

Primary Government – As of December 31, 2019, the District's deposits were fully insured or collateralized in local banks.

Component Units – As of December 31, 2019, the component units' deposits were uninsured by \$87,807.

Custodial Credit Risk – Investments – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The District's investment policy does not address custodial credit risk. As of December 31, 2019, the District had no investments.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Typically, the longer the maturity of an investment, the more sensitive its fair value is to change due to changes in market interest rates. The deposit and investment policies of the District and component units do not limit maturities as a means of managing exposure to fair value losses arising from increasing interest rates. As of December 31, 2019, the District had no investments.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Unless otherwise indicated, the fair value of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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.

5. NOTES RECEIVABLE

Component Unit (ABC)

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

	Balance 12/31/18	Advances	Payments	Write offs	Balance 12/31/19
Revolving Loan Fund	\$ 2,953,404	\$ 421,500	\$ (375,792)	\$ -	\$ 2,999,112
Intermediary Relending Program	1,103,991	-	(253,316)	-	850,675
	<u>\$ 4,057,395</u>	<u>\$ 421,500</u>	<u>\$ (629,108)</u>	<u>\$ -</u>	3,849,787
					<u>(138,991)</u>
					<u>\$ 3,710,796</u>

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

Year Ending December 31,	
2020	\$ 963,931
2021	919,798
2022	879,257
2023	510,529
Thereafter	<u>576,272</u>
	<u>\$ 3,849,787</u>

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

Beginning balance	\$ 149,980
Provision for loan losses	<u>(10,989)</u>
	<u>\$ 138,991</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

6. PROMISE TO GIVE

In a prior year, the District received a conditional promise to be used as a regional revolving loan fund that is administered by the District's component unit, ABC. During the year ended December 31, 2019, the District received cash in the amount of \$140,000, which was passed through to ABC.

Promise receivable in less than one year	\$	-	
Promise receivable in one to five years		-	
Promise receivable in more than five years		<u>100,000</u>	
	<u>\$</u>	<u>100,000</u>	

The outstanding balance of \$100,000 is offset by a deferred inflow of resources at December 31, 2019.

7. CHANGES IN CAPITAL ASSETS

Primary Government

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

	<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>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	199,890	-	-	199,890
Equipment	101,764	-	-	101,764
Vehicles	<u>47,204</u>	<u>-</u>	<u>-</u>	<u>47,204</u>
Total capital assets being depreciated	<u>348,858</u>	<u>-</u>	<u>-</u>	<u>348,858</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

7. CHANGES IN CAPITAL ASSETS, continued

Primary Government, continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	89,618	4,885	-	94,503
Equipment	93,093	3,976	-	97,069
Vehicles	<u>43,276</u>	<u>3,928</u>	<u>-</u>	<u>47,204</u>
Total capital assets being depreciated	<u>225,987</u>	<u>12,789</u>	<u>-</u>	<u>238,776</u>
Total capital assets being depreciated, net	<u>122,871</u>	<u>(12,789)</u>	<u>-</u>	<u>110,082</u>
Governmental activities capital assets, net	<u>\$ 147,060</u>	<u>\$ (12,789)</u>	<u>\$ -</u>	<u>\$ 134,271</u>

For the year ended December 31, 2019, depreciation expense of \$12,789 was charged to general government.

8. LEASE COMMITMENTS

Operating lease obligations are primarily for rental of office equipment. Lease expense for the year ended December 31, 2019 was \$9,873.

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

<u>Year ending December 31,</u>	<u>Amount</u>
2020	\$ 9,163
2021	5,106
2022	2,208
2023	2,208
2024	<u>2,208</u>
Total	<u>\$ 20,893</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

9. LONG-TERM LIABILITIES

Primary Government:

A summary of changes, for the year ended December 31, 2019, in the primary government's long-term liabilities is as follows:

	<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	\$ 62,063	\$ 67,430	\$ (62,063)	\$ 67,430	\$ 67,430
Total	<u>\$ 62,063</u>	<u>\$ 67,430</u>	<u>\$ (62,063)</u>	<u>\$ 67,430</u>	<u>\$ 67,430</u>

Component Units:

A summary of changes, for the year ended December 31, 2019, in the component unit's long-term liabilities is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$ 1,142,160	\$ -	\$ (68,174)	\$ 1,073,986	\$ 68,577
Total	<u>\$ 1,142,160</u>	<u>\$ -</u>	<u>\$ (68,174)</u>	<u>\$ 1,073,986</u>	<u>\$ 68,577</u>

The component units' notes payable, as of December 31, 2019, 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.	\$ 495,367
\$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.	413,909
\$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.	<u>164,710</u>
Total Notes Payable - Component Units	<u>\$ 1,073,986</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

9. LONG-TERM LIABILITIES, continued

Component Units, continued:

Debt service requirements on notes payable for the component units, as of December 31, 2019, is as follows:

Year Ending December 31	Principal	Interest	Total
2020	\$ 68,577	\$ 11,014	\$ 79,591
2021	69,539	10,052	79,591
2022	70,235	9,356	79,591
2023	70,937	8,654	79,591
2024	71,646	7,945	79,591
2025 - 2029	369,124	28,832	397,956
2030 - 2034	290,972	10,981	301,953
2035 - 2039	<u>62,956</u>	<u>943</u>	<u>63,899</u>
	<u>\$1,073,986</u>	<u>\$ 87,777</u>	<u>\$1,161,763</u>

The Department of Agriculture Intermediary Relending Program (IRP) requires a cash reserve for loan loss of 4.5% on the outstanding IRP loan balances. At December 31, 2019, ABC has restricted net position of \$64,346 as a Loan Reserve.

10. PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer hybrid defined benefit plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide retirement, disability, and survivor 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://sdrs.sd.gov/publications.aspx> or by writing to the SDRS , P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

10. PENSION PLAN, continued

Benefits Provided

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

10. PENSION PLAN, continued

Benefits Provided, continued

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2019, 2018 and 2017, equal to required contributions each year, were as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 47,368
2018	\$ 45,815
2017	\$ 44,082

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

10. PENSION PLAN, continued

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2019, SDRS is 100.09% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the District as of the measurement period ending June 30, 2019 and reported by the District as of December 31, 2019 are as follows:

Proportionate share of pension liability	\$ 4,506,469
Less proportionate share of net pension restricted for pension benefits	<u>4,510,302</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (3,833)</u></u>

At December 31, 2019, the District reported an liability/(asset) of \$(3,833) for its proportionate share of the net pension liability/(asset). The net pension liability/(asset) was measured as of June 30, 2019 and the total pension liability/(asset) used to calculate the net pension liability/(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, 2019, the District's proportion was 0.03616110%, which is an increase (decrease) of (0.0000551%) from its proportion measured as of June 30, 2018.

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

10. PENSION PLAN, continued

For the year ended December 31, 2019, the District recognized pension expense of \$109,970. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,032	\$ 1,735
Change in assumptions	132,350	54,257
Net difference between projected and actual earnings on pension plan investments	-	22,076
Changes in proportion and difference between the District's contributions and proportionate share of contributions	1,870	2,559
District contributions subsequent to the measurement date	<u>24,194</u>	<u>-</u>
Total	<u>\$ 173,446</u>	<u>\$ 80,627</u>

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

10. PENSION PLAN, continued

\$24,194 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/(asset) in the year ending December 31, 2020. 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:

Year ended December 31	
2020	\$ 84,024
2021	(13,662)
2022	(9,115)
2023	<u>7,378</u>
	<u>\$ 68,625</u>

Actuarial Assumptions

The total pension liability/(asset) in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50 % net of plan investment expense
Future COLAs	1.88%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

10. PENSION PLAN, continued

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 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, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.00%	4.70%
Fixed Income	30.00%	1.70%
Real Estate	10.00%	4.30%
Cash	2.00%	0.90%
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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 liability (asset).

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

10. PENSION PLAN, continued

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 6.50 percent, 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 (5.50%) or 1-percentage point higher (7.50%) 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)	\$ 636,051	\$ (3,833)	\$ (525,221)

Pension Plan Fiduciary Net Position

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

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 collectability of any related receivable at December 31, 2019 may be impaired. In the opinion of management, any contingent liabilities relating to compliance with the rules and regulations governing the respective grants are immaterial. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

12. RELATED PARTY TRANSACTIONS

The District engages in day-to-day transactions with their component units, including grant pass through and providing management services. As a result of these transactions, the District transferred \$140,000 to ABC for use as part of their relending program and ABC paid management fees to the District of approximately \$75,000 during the year ended December 31, 2019.

The District also contributed \$219 to ABC during the year ended December 31, 2019.

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, 2019, 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.

The District joined 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 a Members' Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. 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.

PLANNING AND DEVELOPMENT DISTRICT III

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

13. RISK MANAGEMENT, continued

Liability Insurance, continued

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

<u>Years</u>	<u>Percentage</u>
1	55%
2	50%
3	40%
4	35%
5	30%
6+	20%

All refunds shall be paid to the withdrawing Member over a five-year term.

The amount available for refund to the District is considered a deposit for financial reporting purposes.

As of December 31, 2019, the District's balance available to be refunded per the SDPAA was \$20,199, which was an increase of \$2,650 from the previous year. The change in the amount available for refund was accounted for as a decrease in the insurance expenditures or program expenses.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

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.

14. SUBSEQUENT EVENT

The District's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in material adverse impact on the District's financial position, operations and cash flows. Possible effects may include, but are not limited to, disruption to the District's customers and revenue, absenteeism in the District's labor workforce and unavailability of products and supplies used in operations.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

14. SUBSEQUENT EVENT, continued

In the summer of 2020, as a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the District received an Economic Development Administration (EDA) grant of Revolving Loan Funds of over 3.5 million dollars. This amount doubles the EDA portion of the District's Revolving Loan Fund portfolio. EDA also gave the District \$369,000 to cover administrative expenses for the handling of the additional funds. These funds will cover the period of July 1, 2020 to June 30, 2022. As a result of the CARES Act funding, the District received an additional \$400,000 in planning grant funds that also covers the period of July 1, 2020 to June 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

PLANNING AND DEVELOPMENT DISTRICT III

SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

	<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2017</u>		<u>2018</u>		<u>2019</u>
District's proportion of the net pension liability (asset)	0.0382249%		0.0376811%		0.0365161%		0.0355187%		0.0362162%		0.0361611%
District's proportionate share of net pension liability (asset)	\$ (275,395)	\$	(159,816)	\$	123,348	\$	(3,223)	\$	(845)	\$	(3,833)
District's covered-employee payroll	\$ 668,450	\$	704,529	\$	694,354	\$	721,666	\$	752,893	\$	770,644
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.20%		-22.68%		17.76%		-0.45%		-0.11%		-0.50%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.30%		104.10%		96.89%		100.10%		100.02%		100.09%

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. Until a full 10-year trend is compiled, the entity will present information for those years for which information is available.

See Independent Auditor's Report

PLANNING AND DEVELOPMENT DISTRICT III

SCHEDULE OF CONTRIBUTIONS

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually required contribution	\$ 40,856	\$ 40,865	\$ 42,903	\$ 44,082	\$ 45,815	\$ 47,368
Contributions in relation to the contractually required contribution	<u>40,856</u>	<u>\$ 40,865</u>	<u>\$ 42,903</u>	<u>\$ 44,082</u>	<u>\$ 45,815</u>	<u>\$ 47,368</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 680,937	\$ 681,080	\$ 715,046	\$ 734,693	\$ 763,586	\$ 791,254
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

See Independent Auditor's Report

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2019

Changes of Benefit Terms

There were no significant changes.

Changes of Assumptions

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

Actuarial assumptions are reviewed in debt periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

SUPPLEMENTARY INFORMATION

PLANNING AND DEVELOPMENT DISTRICT III

SCHEDULE OF INDIRECT COSTS - PRIMARY GOVERNMENT
YEAR ENDED DECEMBER 31, 2019

Indirect Overhead Costs	
Salaries, payroll taxes and benefits	\$ 252,968
Supplies and postage	7,168
Travel	13,502
Equipment rent	9,835
Repairs and maintenance	7,880
Depreciation	6,761
Utilities	6,433
Consulting fees	1,066
Insurance	8,173
Professional fees	7,934
Telephone	3,624
Maintenance agreements	9,936
Miscellaneous expense	2,572
Small equipment	4,966
Advertising	638
Real estate taxes	<u>205</u>
Indirect Overhead Costs before Fringe Benefit Allocation	343,661
Fringe benefits	<u>59,622</u>
Total Indirect Overhead Costs	<u>\$ 403,283</u>
Fringe Benefits	
Retirement	\$ 47,368
Health insurance	63,353
Disability, life insurance	11,732
Employer's FICA	58,134
Unemployment tax	812
Worker's compensation insurance	1,737
Section 125 fees	<u>300</u>
Total Fringe Benefits Incurred	<u>\$ 183,436</u>
Summary	
Direct program costs before fringe benefit allocation	\$ 643,429
Indirect costs before fringe benefit allocation	343,661
Fringe benefits incurred	<u>183,436</u>
Total Direct, Indirect, and Fringe Benefits Cost	<u>\$ 1,170,526</u>

See Independent Auditor's Report

PLANNING AND DEVELOPMENT DISTRICT III

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

<u>FEDERAL FUNDING/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures/ Disbursements Direct</u>
Primary Government:			
<u>U.S Department of Commerce</u>			
Direct Funding:			
Economic Development - Support for Planning Organizations EDA	11.302		\$ <u>70,000</u>
<u>Small Business Administration</u>			
Passed through the University of South Dakota: Small Business Development Center	59.037	USD-1213	<u>74,334</u>
<u>U.S. Department of Defense</u>			
Passed through the University of South Dakota: Procurement Technical Assistance for Business Firms	12.002	USD-1207	<u>40,039</u>
Total Federal Funding - Primary Government			<u>184,373</u>
Component Unit:			
<u>U.S Department of Agriculture</u>			
Direct Funding:			
Intermediary Relending Program (Note 3)	10.767		<u>1,142,160</u>
<u>U.S Department of Commerce</u>			
Direct Funding:			
Economic Development Cluster: Economic Adjustment Assistance (Title IX Revolving Loan Program) (Note 4)	11.307		<u>2,536,432</u>
Total Federal Funding - Component Unit			<u>3,678,592</u>
Total Federal Funding			\$ <u>3,862,965</u>

See Independent Auditor's Report

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

Note 1:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended December 31, 2019. 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). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District. 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, 2019, consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2019
10.767	Intermediary Relending Program	\$1,073,986

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, 2019	\$ 2,721,877
Cash balance at December 31, 2019	504,900
Administration expenses paid during fiscal year 2019	63,589
Balance of loans written off - current year	<u>-</u>
Total expenditures	3,290,366
Federal share percentage	<u>77.09%</u>
Federal share included as expenditure in the schedule	\$ <u>2,536,432</u>

See Independent Auditor's Report


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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 21, 2020.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 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
September 21, 2020

*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 the District's major federal program for the year ended December 31, 2019. 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 the 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, 2019.

Report on Internal Control Over Compliance

Management of the District 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 of compliance, 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 federal 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. However, material weaknesses may exist that have not been identified.

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.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
September 21, 2020

PLANNING AND DEVELOPMENT DISTRICT III
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2019

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, 2019**

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:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.767	Intermediary Relending Program

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
YEAR ENDED DECEMBER 31, 2019

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.