

**PLANNING AND DEVELOPMENT DISTRICT III**

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

**DECEMBER 31, 2022**

**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

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the **PLANNING AND DEVELOPMENT DISTRICT III (the District)**, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2022, 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.

#### *Basis for Opinions*

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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## ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 is the responsibility of management and, 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 opinions on the basic financial statements are not affected by this missing information.

### ***Supplementary 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 accompanying schedule of indirect costs – Primary Government and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 accompanying 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 8, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Wohlenberg Ritzman + Co., LLC*

Yankton, South Dakota  
September 8, 2023

**PLANNING AND DEVELOPMENT DISTRICT III**

STATEMENT OF NET POSITION  
DECEMBER 31, 2022

	Primary Government	Total Component Units
<b>ASSETS</b>		
Cash and cash equivalents	\$ 366,998	\$ 1,474,047
Certificates of deposit	1,007,200	405,000
Accounts receivable, less allowance of \$-0-	120,080	-
Due from other governments	160,780	-
Accrued interest receivable	9,031	19,954
Due from component unit	21,562	-
Prepaid expenses	43,083	997
Promise to give, less allowance of \$-0-	100,000	-
Notes receivable, net of allowance for loan losses of \$138,217	-	8,133,323
Net pension asset	3,721	-
Restricted assets:		
Cash and cash equivalents	-	75,533
Capital Assets:		
Capital assets, not being depreciated	24,189	-
Capital assets, being depreciated, net	<u>172,291</u>	<u>-</u>
 Total Assets	 <u>2,028,935</u>	 <u>10,108,854</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	<u>341,016</u>	<u>-</u>
<b>LIABILITIES</b>		
Accounts payable	17,851	-
Due to primary government	-	21,562
Interest payable	-	2,079
Revenue received in advance:		
Dues	2,534	-
Fees for service	57,400	-
Grants	150	-
Assets held on behalf of others	7,604	311,800
Long-term liabilities:		
Portion due or payable within one year:		
Notes payable	-	70,937
Compensated absences	97,543	-
Portion due or payable after one year:		
Notes payable	<u>-</u>	<u>794,411</u>
 Total Liabilities	 <u>183,082</u>	 <u>1,200,789</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Promise to give related to future periods	100,000	-
Pension related deferred inflows	<u>216,988</u>	<u>-</u>
 Total Deferred Inflows of Resources	 <u>316,988</u>	 <u>-</u>
<b>NET POSITION</b>		
Investment in capital assets	196,480	-
Restricted for:		
SDRS pension	127,749	-
Loan and loan commitments	-	8,902,380
Unrestricted	<u>1,545,652</u>	<u>5,685</u>
 Total Net Position	 <u>\$ 1,869,881</u>	 <u>\$ 8,908,065</u>

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



**PLANNING AND DEVELOPMENT DISTRICT III**

STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2022

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	\$ 1,484,663	\$ 762,899	\$ 647,574	\$ (74,190)	
Total Primary Government	<u>\$ 1,484,663</u>	<u>\$ 762,899</u>	<u>\$ 647,574</u>	(74,190)	
Total Component Units	<u>\$ 102,940</u>	<u>\$ 181,441</u>	<u>\$ 59,309</u>		\$ 137,810
General revenues:					
Unrestricted investment earnings				10,878	10,687
Gain on sale of capital assets				<u>5,188</u>	<u>-</u>
Change in net position				(58,124)	148,497
Net position, beginning				<u>1,928,005</u>	<u>9,021,539</u>
Prior period adjustment				<u>-</u>	<u>(261,971)</u>
Net position, beginning, restated				<u>1,928,005</u>	<u>8,759,568</u>
Net position, ending				<u>\$ 1,869,881</u>	<u>\$ 8,908,065</u>

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

PLANNING AND DEVELOPMENT DISTRICT III

BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2022

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 366,998
Certificates of deposits	1,007,200
Accounts receivable, less allowance of \$-0-	120,080
Due from other governments	160,780
Due from component unit	21,562
Accrued interest receivable	9,031
Prepaid expenses	43,083
Promise to give, less allowance of \$-0-	<u>100,000</u>
Total Assets	<u>\$ 1,828,734</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 17,851
Assets held for others	7,604
Revenue received in advance:	
Dues	2,534
Fees for service	57,400
Grants	<u>150</u>
Total Liabilities	<u>85,539</u>
Deferred Inflows of Resources:	
Promise to give related to future periods	<u>100,000</u>
Fund Balances:	
Nonspendable:	
Prepaid expenses	43,083
Unassigned	<u>1,600,112</u>
Total Fund Balances	<u>1,643,195</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,828,734</u>

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of these financial statements.

**PLANNING AND DEVELOPMENT DISTRICT III**

RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2022

Total fund balances for governmental fund		\$ 1,643,195
Amounts reported for governmental activities in the statement of net position are different because:		
Net pension liability (asset) reported in governmental activities is not a spendable financial resource and therefore is not reported in the funds		3,721
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.		
Those assets consist of:		
Land	\$ 24,189	
Building and improvements, net of \$114,678 accumulated depreciation	136,622	
Equipment, net of \$115,196 accumulated depreciation	15,857	
Vehicles, net of \$39,044 accumulated depreciation	<u>19,812</u>	196,480
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds		341,016
Accrued leave payable is not due and payable in the current period and therefore is not reported in the funds.		
Balance at December 31, 2022 is:		
Compensated absences		(97,543)
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds		<u>(216,988)</u>
Total net position of governmental activities		<u>\$ 1,869,881</u>

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

**PLANNING AND DEVELOPMENT DISTRICT III**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUND  
YEAR ENDED DECEMBER 31, 2022

	<u>General Fund</u>
<b>REVENUES</b>	
Operating Grants and Contracts:	
From federal agencies	
Grants:	
Department of Commerce	\$ 174,580
Small Business Administration	89,000
Department of Defense	40,039
State funding	339,455
Local funding	4,500
Charges for Goods and Services:	
Fees for services	377,921
Local dues	307,169
Component unit fees	77,809
General Revenue:	
Interest income	<u>10,878</u>
Total Revenues	<u>1,421,351</u>
<b>EXPENDITURES</b>	
General Government:	
Personnel	986,758
Employee benefits and payroll taxes	237,433
Consulting	66,271
Equipment	40,170
Professional fees	36,874
Occupancy	28,336
Travel and vehicle	26,342
Materials and supplies	16,102
Insurance	10,398
Advertising	2,910
Postage	2,723
Miscellaneous	815
Capital outlay	<u>37,835</u>
Total Expenditures	1,492,967
Excess of revenues over expenditures	<u>(71,616)</u>
<b>OTHER FINANCING SOURCES</b>	
Proceeds from sale of capital assets	<u>5,188</u>
Total other financing sources	5,188
Net change in fund balances	(66,428)
Fund Balances, Beginning of Year	<u>1,709,623</u>
Fund Balances, End of Year	<u>\$ 1,643,195</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, 2022**

Change in fund balances - total governmental fund	\$ (66,428)
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 capital outlay (\$37,835) exceeded depreciation (\$22,697) in the current period.	15,138
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change in compensated absences.	(25,217)
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>18,383</u>
Change in net position of governmental activities	<u>\$ (58,124)</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, 2022

	Areawide Business Council, Inc.	Prairieland Housing Development	Total Component Units
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,473,843	\$ 204	\$ 1,474,047
Certificates of deposit	405,000	-	405,000
Accrued interest receivable	19,954	-	19,954
Prepaid expense	997	-	997
Restricted assets:			
Cash and cash equivalents	75,533	-	75,533
Notes receivable, net of allowance for loan losses of \$138,217	<u>8,133,323</u>	<u>-</u>	<u>8,133,323</u>
Total Assets	<u>10,108,650</u>	<u>204</u>	<u>10,108,854</u>
<b>LIABILITIES</b>			
Due to primary government	21,562	-	21,562
Interest payable	2,079	-	2,079
Assets held for others	311,800	-	311,800
Long-term liabilities			
Portion due or payable within one year:			
Notes payable	70,937	-	70,937
Portion due or payable after one year:			
Notes payable	<u>794,411</u>	<u>-</u>	<u>794,411</u>
Total Liabilities	<u>1,200,789</u>	<u>-</u>	<u>1,200,789</u>
<b>NET POSITION</b>			
Restricted:			
Loans and loan commitments	8,902,380	-	8,902,380
Unrestricted	<u>5,481</u>	<u>204</u>	<u>5,685</u>
Total Net Position	<u>\$ 8,907,861</u>	<u>\$ 204</u>	<u>\$ 8,908,065</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, 2022

	<u>Areawide Business Council, Inc.</u>	<u>Prairieland Housing Development</u>	<u>Total Component Units</u>
<b>OPERATING REVENUES</b>			
Interest and fee income - loans	\$ 181,441	\$ -	\$ 181,441
Contributions	1,309	-	1,309
Federal grants and contracts	<u>58,000</u>	<u>-</u>	<u>58,000</u>
Total Operating Revenues	<u>240,750</u>	<u>-</u>	<u>240,750</u>
<b>OPERATING EXPENSES</b>			
Payments to primary government	85,093	-	85,093
Loan loss provision	(12,594)	-	(12,594)
Professional fees	3,625	-	3,625
Insurance	9,021	-	9,021
Honorariums	2,475	-	2,475
Travel	1,797	-	1,797
Miscellaneous	3,007	10	3,017
Contract services	<u>1,297</u>	<u>-</u>	<u>1,297</u>
Total Operating Expenses	<u>93,721</u>	<u>10</u>	<u>93,731</u>
Operating income	<u>147,029</u>	<u>(10)</u>	<u>147,019</u>
<b>NONOPERATING (EXPENSES) REVENUES</b>			
Interest expense	(9,209)	-	(9,209)
Interest income - savings	<u>10,687</u>	<u>-</u>	<u>10,687</u>
Total Nonoperating (Expenses) Revenues	<u>1,478</u>	<u>-</u>	<u>1,478</u>
Change in net position	148,507	(10)	148,497
Net Position, beginning of year	9,021,325	214	9,021,539
Prior period adjustment	<u>(261,971)</u>	<u>-</u>	<u>(261,971)</u>
Net Position, beginning of year, restated	<u>8,759,354</u>	<u>214</u>	<u>8,759,568</u>
Net Position, end of year	<u>\$ 8,907,861</u>	<u>\$ 204</u>	<u>\$ 8,908,065</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, 2022

	<u>Areawide Business Council, Inc.</u>	<u>Prairieland Housing Development</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 169,346	\$ -	\$ 169,346
Receipts from grantors and donors	59,309	-	59,309
Payments to others for goods and services	<u>(104,170)</u>	<u>(10)</u>	<u>(104,180)</u>
Net cash provided by (used in) operating activities	<u>124,485</u>	<u>(10)</u>	<u>124,475</u>
<b>CASH FLOWS USED IN CAPITAL FINANCING ACTIVITIES</b>			
Interest payments on long-term debt	(9,355)	-	(9,355)
Principal payments on long-term debt	<u>(70,240)</u>	<u>-</u>	<u>(70,240)</u>
Net cash provided by (used in) capital financing activities	<u>(79,595)</u>	<u>-</u>	<u>(79,595)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income on deposits	10,687	-	10,687
Advances made on notes receivable	(1,445,912)	-	(1,445,912)
Payments received on notes receivable	1,475,975	-	1,475,975
Net purchases of certificates of deposit	<u>(160,000)</u>	<u>-</u>	<u>(160,000)</u>
Net cash provided by (used in) investing activities	<u>(119,250)</u>	<u>-</u>	<u>(119,250)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(74,360)	(10)	(74,370)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	<u>1,623,736</u>	<u>214</u>	<u>1,623,950</u>
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<u>\$ 1,549,376</u>	<u>\$ 204</u>	<u>\$ 1,549,580</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 147,029	\$ (10)	\$ 147,019
Adjustments to reconcile operating income to net cash provided by operating activities:			
Loan loss provision	(12,594)	-	(12,594)
Change in operating assets and liabilities:			
(Increase) decrease in:			
Interest receivable	(12,095)	-	(12,095)
Prepaid expense	(574)	-	(574)
(Decrease) Increase in:			
Payable to primary government	<u>2,719</u>	<u>-</u>	<u>2,719</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 124,485</u>	<u>\$ (10)</u>	<u>\$ 124,475</u>
<b>Cash and Cash Equivalents Consists of:</b>			
Cash and cash equivalents	\$ 1,473,843	\$ 204	\$ 1,474,047
Restricted cash and cash equivalents	<u>75,533</u>	<u>-</u>	<u>75,533</u>
	<u>\$ 1,549,376</u>	<u>\$ 204</u>	<u>\$ 1,549,580</u>

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



## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Reporting Entity**

Planning and Development District III (the District) is a special 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 15 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, 2022

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

##### **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, 2022

#### 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 a 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% 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% 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, 2022

#### 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, 2022, consist primarily of amounts due from other governments and accounts receivable.

## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

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

##### **Measurement Focus and Basis of Accounting, continued**

###### *Fund Financial Statements, continued:*

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

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

##### **Deposits and Investments**

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

##### **Cash Restricted for Loan Reserve**

The Intermediary Relending Program requires ABC to establish a restricted interest bearing cash account for a loan reserve in the amount of 4.5% of the installment notes receivable balance. ABC is in compliance for the year ended December 31, 2022.

##### **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.

##### **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.

## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

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

##### **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.

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.

##### **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.

**PLANNING AND DEVELOPMENT DISTRICT III**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Capital Assets, continued**

*Government-wide Financial Statements, continued:*

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the 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.

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. Employees will receive 25% of accrued sick leave balance, or \$3,000, whichever is smaller, upon termination.

## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

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

##### **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.

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 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, 2022

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

##### **Program Revenues, continued**

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

##### **Equity Classifications**

###### *Government-wide Financial Statements:*

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

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

###### *Fund Financial Statements:*

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

## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

#### 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:

1. Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. 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.
3. 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.
4. Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the Board of Directors.
5. 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, 2022

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

##### **Income Taxes - Component Units**

The component units 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 overhead/indirect costs 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 and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements the reported amounts of income and expense during the reporting 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, 2022

#### 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.

As of December 31, 2022, the District's deposits were fully insured or collateralized in local banks.

As of December 31, 2022, the component units' deposits were fully insured or collateralized in local banks.

**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, 2022, 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, 2022, the District had no investments.

**Credit Risk** – State law limited eligible investments for the District as discussed above. The District's investment policy does not further limit its investment choices. As of December 31, 2022, the District had no investments.

**Concentration of Credit Risk** – The District places no limit on the amount that may be invested in any one issuer. As of December 31, 2022, the District had no investments.

**PLANNING AND DEVELOPMENT DISTRICT III**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements.

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

4. DUE FROM OTHER GOVERNMENTS

Due from other governments as of December 31, 2022 consists of the following:

Due from other governments – primary government:

State of South Dakota	\$ 140,780
Department of Commerce	<u>20,000</u>
	<u>\$ 160,780</u>

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the District. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District does not anticipate any.

5. NOTES RECEIVABLE

**Component Unit (ABC)**

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

	Balance <u>12/31/21</u>	Advances	Payments	Write offs	Balance <u>12/31/22</u>
Revolving Loan Fund	\$ 6,981,723	\$ 1,345,912	\$(1,203,014)	\$ -	\$ 7,124,621
Intermediary Relending Program	<u>1,319,880</u>	<u>100,000</u>	<u>(272,961)</u>	<u>-</u>	<u>1,146,919</u>
	<u>\$ 8,301,603</u>	<u>\$ 1,445,912</u>	<u>\$(1,475,975)</u>	<u>\$ -</u>	<u>\$ 8,271,540</u>
Allowance for loan losses	<u>(150,811)</u>				<u>(138,217)</u>
	<u>\$ 8,150,792</u>				<u>\$ 8,133,323</u>

**PLANNING AND DEVELOPMENT DISTRICT III**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022

5. NOTES RECEIVABLE, continued

**Component Unit (ABC), continued**

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

Year Ending December 31,	
2023	\$ 1,174,144
2024	1,102,803
2025	1,608,053
2026	2,731,961
2027	1,200,370
Thereafter	<u>454,209</u>
	<u>\$ 8,271,540</u>

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

Beginning balance	\$ 150,811
Provision for loan losses	<u>(12,594)</u>
	<u>\$ 138,217</u>

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, 2022, the District did not receive any cash on conditional promises to give.

Promise receivable in less than one year	\$ -
Promise receivable in one to five years	60,000
Promise receivable in more than five years	<u>40,000</u>
	<u>\$ 100,000</u>

The outstanding balance of \$100,000 is offset by a deferred inflow of resources at December 31, 2022.

**PLANNING AND DEVELOPMENT DISTRICT III**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022

7. CHANGES IN CAPITAL ASSETS

**Primary Government**

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

	Beginning Balances	Increases	Decreases	Ending Balances
Government Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 24,189	\$ -	\$ -	\$ 24,189
Total capital assets not being depreciated	24,189	-	-	24,189
<i>Capital assets being depreciated:</i>				
Buildings and improvements	251,300	-	-	251,300
Equipment	118,935	12,118	-	131,053
Vehicles	47,204	25,717	(14,065)	58,856
Total capital assets being depreciated	417,439	37,835	(14,065)	441,209
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	106,365	8,313	-	114,678
Equipment	106,717	8,479	-	115,196
Vehicles	47,204	5,905	(14,065)	39,044
Total accumulated depreciation	260,286	22,697	(14,065)	268,918
Total capital assets being depreciated, net	157,153	15,138	-	172,291
Governmental activities capital assets, net	\$ 181,342	\$ 15,138	\$ -	\$ 196,480

For the year ended December 31, 2022, depreciation expense of \$22,697 was charged to general government.

8. ASSETS HELD FOR OTHERS

The District holds and manages assets on behalf of three entities. Assets held for others at December 31, 2022 consist of the following:

Yankton Sioux Tribe	\$ 49,829
Wagner Area Growth	220,906
Aurora County	41,065
	\$ 311,800

**PLANNING AND DEVELOPMENT DISTRICT III**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022

9. LONG-TERM LIABILITIES

**Primary Government:**

A summary of changes, for the year ended December 31, 2022, 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>
Compensated absences	\$ 72,326	\$ 97,543	\$ (72,326)	\$ 97,543	\$ 97,543
Total	<u>\$ 72,326</u>	<u>\$ 97,543</u>	<u>\$ (72,326)</u>	<u>\$ 97,543</u>	<u>\$ 97,543</u>

**Component Unit (ABC):**

A summary of changes, for the year ended December 31, 2022, 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	\$ 935,588	\$ -	\$ (70,240)	\$ 865,348	\$ 70,937
Total	<u>\$ 935,588</u>	<u>\$ -</u>	<u>\$ (70,240)</u>	<u>\$ 865,348</u>	<u>\$ 70,937</u>

The component unit's notes payable, as of December 31, 2022, 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.	\$ 413,905
\$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.	329,978
\$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>121,465</u>
Total Notes Payable - Component Unit	<u>\$ 865,348</u>



**PLANNING AND DEVELOPMENT DISTRICT III**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022

9. LONG-TERM LIABILITIES, continued

**Component Unit (ABC), continued**

Debt service requirements on notes payable for the component unit, as of December 31, 2022, is as follows:

Year Ending December 31	Principal	Interest	Total
2023	\$ 70,937	\$ 8,654	\$ 79,591
2024	71,647	7,944	79,591
2025	72,363	7,228	79,591
2026	73,086	6,505	79,591
2027	73,817	5,774	79,591
2028 - 2032	347,934	17,814	365,748
2033 - 2037	155,564	3,435	158,999
	<u>\$ 865,348</u>	<u>\$ 57,354</u>	<u>\$ 922,702</u>

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 pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor 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, 2022

#### 10. PENSION PLAN, continued

##### **Benefits Provided**

SDRS has four different classes of employees, Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members and Class D Department of Labor and Regulation 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. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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, 2022**

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 3<sup>rd</sup> 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 3<sup>rd</sup> 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.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

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, 2022, 2021, and 2020, equal to the required contributions each year, were as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 57,387
2021	\$ 57,797
2020	\$ 52,698

**PLANNING AND DEVELOPMENT DISTRICT III**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

10. PENSION PLAN, continued

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

At June 30, 2022, SDRS is 100.1% 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 this measurement period ending June 30, 2022 and reported by the District as of December 31, 2022 are as follows:

Proportionate share of pension liability	\$ 5,557,713
Less proportionate share of net pension restricted for pension benefits	<u>5,561,434</u>
Proportionate share of net pension liability (asset)	<u>\$ (3,721)</u>

At December 31, 2022, the District reported a liability (asset) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022 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, 2022, the District's proportion was 0.03937000%, which is an increase (decrease) of 0.0030040% from its proportion measured as of June 30, 2021.

**PLANNING AND DEVELOPMENT DISTRICT III**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022

10. PENSION PLAN, continued

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

For the year ended December 31, 2022, the District recognized pension expense (reduction of pension expense) of \$(18,383). At December 31, 2022 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows or Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 70,827	\$ 242
Change in assumptions	236,477	207,241
Net difference between projected and actual earnings on pension plan investments	-	8,917
Change in proportion and difference between the District's contributions and proportionate share of contributions	4,625	588
District contributions subsequent to the measurement date	<u>29,087</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 341,016</u></b>	<b><u>\$ 216,988</u></b>

**PLANNING AND DEVELOPMENT DISTRICT III**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

10. PENSION PLAN, continued

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

\$29,087 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of expense) as follows:

Year ended December 31	
2023	\$ 25,406
2024	52,891
2025	(57,589)
2026	<u>74,234</u>
	<u>\$ 94,942</u>

**Actuarial Assumptions**

The total pension liability (asset) in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.5 % and real returns of 4.00%
Future COLAs	2.10%

## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

#### 10. PENSION PLAN, continued

##### **Actuarial Assumptions, continued**

##### Mortality Rates

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65

Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above

Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**PLANNING AND DEVELOPMENT DISTRICT III**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022

10. PENSION PLAN, continued

**Actuarial Assumptions, continued**

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, 2022 (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	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	0.4%
	100%	

**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).

**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%, 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:

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of net pension liability/(asset)	\$ 772,572	\$ (3,721)	\$ (638,157)



## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

#### 10. PENSION PLAN, continued

##### **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, 2022 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.

#### 12. RESTRICTED NET POSITION

Restricted net position on the statement of net position consists of grantor restrictions of \$9,164,351 to be used to provide loans to recipients eligible to participate in the USDA Rural Development Intermediary Relending Programs and Economic Development Administration Revolving Loan Fund Program, as of December 31, 2022. Restricted net position also consists of \$127,749 related to the South Dakota Retirement System pension plan as described in Note 10.

## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

#### 13. 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 \$58,000 to ABC for use as part of their relending program. ABC primarily distributed these funds as loans to businesses under the relending program. Those balances are included in notes receivable on the Statement of Net Position. The District also contributed \$1,309 to ABC during the year ended December 31, 2022.

ABC also paid management fees to the District of \$85,093 during the year ended December 31, 2022. At December 31, 2022, ABC owed the District \$21,562 in management fees for the fourth quarter of 2022.

#### 14. 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, 2022, the District managed its risks as follows:

##### **Employee Health Insurance**

The District purchases health insurance from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

##### **Property and 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.

## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

#### 14. RISK MANAGEMENT, continued

##### **Property and Liability Insurance, continued**

The District pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under an occurrence-based 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.

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing Members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing Member with such a partial refund because the departing Member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing Member pursuant to the revised IGC.

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

##### **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.

## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

14. RISK MANAGEMENT, continued

**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.

15. PRIOR PERIOD ADJUSTMENT

During the fiscal year ended December 31, 2022, the District reclassified \$261,971 of cash and cash equivalents for the component unit, Areawide Business Council, Inc. (ABC), to Amounts Held for Others. This correction had the effect of reducing total net assets at December 31, 2022 by \$261,971. This correction had no effect on total change in net assets for the year then ended.

Amounts Held for Others at December 31, 2022, have been adjusted for amounts received in prior years for the Wagner Area Growth Economic Development Corporation, and the County of Aurora, SD. The District holds and manages assets on behalf of these entities. The correction has no effect on the results of the current year's activities; however, the cumulative effect decreases beginning net assets for December 31, 2022, by \$261,971.

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>
District's proportion of the net pension liability (asset)	0.0382249%	0.0376811%	0.0365161%	0.0355187%	0.0362162%
District's proportionate share of net pension liability (asset)	\$ (275,395)	\$ (159,816)	\$ 123,348	\$ (3,223)	\$ (845)
District's covered payroll	\$ 668,450	\$ 704,529	\$ 694,354	\$ 721,666	\$ 752,893
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-41.20%	22.68%	17.76%	0.45%	0.11%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.30%	104.10%	96.89%	100.10%	100.02%
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	
District's proportion of the net pension liability (asset)	0.0361611%	0.0371023%	0.0423740%	0.0393700%	
District's proportionate share of net pension liability (asset)	\$ (3,833)	\$ (1,611)	\$ (324,512)	\$ (3,721)	
District's covered payroll	\$ 770,644	\$ 814,285	\$ 961,603	\$ 940,105	
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.50%	0.20%	33.75%	0.40%	
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.09%	100.04%	105.52%	100.10%	

\* 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 District 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>
Contractually required contribution	\$ 40,856	\$ 40,865	\$ 42,903	\$ 44,082	\$ 45,815
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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 680,937	\$ 681,080	\$ 715,046	\$ 734,693	\$ 763,586
Contributions as a percentage of covered payroll	6.00%	6.00%	6.00%	6.00%	6.00%
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	
Contractually required contribution	\$ 47,368	\$ 52,698	\$ 57,797	\$ 57,387	
Contributions in relation to the contractually required contribution	<u>\$ 47,368</u>	<u>\$ 52,698</u>	<u>\$ 57,797</u>	<u>\$ 57,387</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
District's covered payroll	\$ 791,254	\$ 877,823	\$ 963,275	\$ 956,442	
Contributions as a percentage of covered payroll	6.00%	6.00%	6.00%	6.00%	

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

See Independent Auditor's Report

## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2022

#### **Changes from Prior Valuation**

The June 30, 2022, Actuarial Valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2021 Actuarial Valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation.

The details of the changes since the last valuation are as follows:

#### *Benefit Provision Changes*

During the 2022 Legislative Session no significant SDRS benefit changes were made and gaming enforcement agents became the Class B Public Safety Members.

#### *Actuarial Assumption Changes*

As a result of an experience analysis covering the period from July 1, 2016 to June 30, 2021 and presented to the SDRS Board of Trustees in April and June, 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2022 actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.



## PLANNING AND DEVELOPMENT DISTRICT III

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2022

#### **Changes from Prior Valuation, continued**

##### *Actuarial Assumption Changes, continued*

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) 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%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021 Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended 7 changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

#### **Actuarial Method Changes**

Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.

SUPPLEMENTARY INFORMATION

**PLANNING AND DEVELOPMENT DISTRICT III**

**SCHEDULE OF INDIRECT COSTS - PRIMARY GOVERNMENT  
YEAR ENDED DECEMBER 31, 2022**

<b>Indirect Overhead Costs</b>	
Salaries, payroll taxes and benefits	\$ 324,429
Supplies and postage	6,952
Travel	9,632
Equipment rent	9,378
Repairs and maintenance	6,253
Depreciation	12,985
Utilities	7,554
Consulting fees	12,658
Insurance	10,398
Professional fees	8,380
Telephone	9,590
Maintenance agreements	24,048
Miscellaneous expense	5,063
Small equipment	26,869
Advertising	2,909
Real estate taxes	205
Indirect Overhead Costs before Fringe Benefit Allocation	477,303
Fringe benefits	69,211
Total Indirect Overhead Costs	<u>\$ 546,514</u>
<b>Fringe Benefits</b>	
Retirement	\$ 57,387
Health insurance	90,784
Disability, life insurance	14,443
Employer's FICA	71,457
Unemployment tax	1,303
Worker's compensation insurance	2,059
Total Fringe Benefits Incurred	<u>\$ 237,433</u>
<b>Summary</b>	
Direct program costs before fringe benefit allocation	\$ 788,310
Indirect costs before fringe benefit allocation	477,303
Fringe benefits incurred	237,433
Total Direct, Indirect, and Fringe Benefits Cost	<u>\$ 1,503,046</u>

See Independent Auditor's Report

**PLANNING AND DEVELOPMENT DISTRICT III**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2022

<u>FEDERAL FUNDING/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures/ Disbursements</u>
<b>Primary Government:</b>			
<u>U.S Department of Commerce</u>			
Direct Funding:			
Economic Development Support for Planning Organizations	11.302		\$ 61,736
Economic Development Cluster: COVID-19 Economic Adjustment Assistance	11.307		<u>112,844</u>
Total U.S. Department of Commerce			<u>174,580</u>
<u>Small Business Administration</u>			
Passed through the University of South Dakota: Small Business Development Centers	59.037	A00-0322-S018	<u>89,000</u>
<u>U.S. Department of Defense</u>			
Passed through the University of South Dakota: Procurement Technical Assistance for Business Firms	12.002		
PTAC Grant		A00-0423-S005	\$ 8,382
PTAC Grant		A00-0423-S006	<u>31,657</u>
Total Federal Funding - Primary Government			<u>303,619</u>
<b>Component Unit:</b>			
<u>U.S Department of Agriculture</u>			
Direct Funding:			
Intermediary Relending Program	10.767		<u>935,588</u>
<u>U.S Department of Commerce</u>			
Direct Funding:			
Economic Development Cluster: Disaster	11.307		672,613
Opportunity	11.307		363,845
CARES	11.307		<u>3,774,877</u>
Total Federal Funding - Component Unit			<u>5,746,923</u>
Total Federal Funding			<u>\$ 6,050,542</u>

See Independent Auditor's Report

**PLANNING AND DEVELOPMENT DISTRICT III**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2022

**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, 2022. 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* (the 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.

**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 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 4:**

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, 2022, consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2022
10.767	Intermediary Relending Program	\$935,588

**Note 5:**

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, 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.

	RLF - Disaster	RLF -Opportunity	RLF CARES	Total
Balances of notes receivable at December 31, 2022	\$ 821,886	\$ 688,815	\$ 3,646,045	\$ 5,156,746
Cash balance at December 31, 2022	61,894	30,225	118,790	210,909
Administration expenses paid during fiscal year 2022	13,037	8,650	10,042	31,729
Balance of loans written off - current year	-	-	-	-
Total expenditures	<u>896,817</u>	<u>727,690</u>	<u>3,774,877</u>	<u>5,399,384</u>
Federal share percentage	<u>75.00%</u>	<u>50%</u>	<u>100%</u>	
Federal share included as expenditure in the schedule	<u>\$ 672,613</u>	<u>\$ 363,845</u>	<u>\$ 3,774,877</u>	<u>\$ 4,811,335</u>

See Independent Auditor's Report



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 the Planning and Development District III (the District), as of and for the year ended December 31, 2022, 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 8, 2023.

**Report on 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) as a basis for designing audit 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.

*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.

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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 or significant deficiencies may exist that have not been identified.

### **Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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 8, 2023

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**

***Opinion on Each Major Federal Program***

We have audited Planning & Development District III's (the District) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the year ended December 31, 2022. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 each of its major federal programs for the year ended December 31, 2022.

***Basis for Opinion on Each Major Federal Program***

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

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### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 results 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.

*Wohlschlag Ritzman + Co., LLC*

Yankton, South Dakota  
September 8, 2023

**PLANNING AND DEVELOPMENT DISTRICT III**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED DECEMBER 31, 2022**

**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, 2022**

**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>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
11.307	Economic Adjustment Assistance
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, 2022**

**SECTION II. FINDINGS - FINANCIAL STATEMENTS**

There are no financial statement audit findings.

**SECTION III. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS**

There are no major federal award program findings.