

**FIRST DISTRICT ASSOCIATION OF
LOCAL GOVERNMENTS**

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

SEPTEMBER 30, 2015

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

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certified public accountants

INDEPENDENT AUDITOR'S REPORT

To The Governing Board
First District Association of Local Governments
Watertown, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of First District Association of Local Governments (hereinafter referred to as the Association) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement. Free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the First District Association of Local Governments as of September 30, 2015, 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.

Emphasis of Matter

Adoption of New Accounting Standard

As described in Notes 2 and 8 to the financial statements, the Association adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of October 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of Association's proportionate share of net pension asset, and the schedule of Association's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The schedules of revenues and expenditures by grant/project, local revenues and expenditures, and indirect costs are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedules of revenues and expenditures by grant/project, local revenues and expenditures, and indirect costs and the schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures by grant/project, local revenues and expenditures, indirect costs, 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 *Governmental Auditing Standards*, we have also issued our report dated May 2, 2016, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Wohlberg Ritzman & Co., LLC

Yankton, South Dakota
May 2, 2016

**Management's Discussion and Analysis
First District Association of Local Governments
For the Year Ended September 30, 2015**

This section of the First District Association of Local Governments (First District) annual financial report presents our discussion and analysis of First District's financial performance during the fiscal year ended on September 30, 2015. This discussion and analysis considers only the Primary Government's financial activity. This analysis should be read in conjunction with the Financial Statements and Independent Auditor's Report.

Nature of Operations for the Organization

First District is a governmental entity; the boundaries, counties, cities included were established by Under Executive Order 70-7 and amended by Executive Order 2000-03 by the State of South Dakota's governor's office. First District currently serves 11 counties and 75 communities in northeast South Dakota, initiating, guiding and providing strategic planning development through projects to enhance the economic environment and improve or maintain the quality of life in the area it serves.

Discussion of the basic financial statements

This annual report consists of two parts, this Management's Discussion and Analysis and the:

Basic financial statements, including related notes that explain some of the information in the financial statements and provide more detailed data

The basic financial statements include two kinds of statements:

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

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

These statements report First District's net positions and changes in them. First District's net position, the difference between assets (what First District owns) and liabilities (what First District owes) is one way to measure First District's financial health. Over time, increases or decreases in First District's net position are one indicator of whether its financial health is improving or deteriorating.

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

- Governmental Activities - This category includes most of First District's basic services.
- Component Unit - This category includes First District Development Company – a 501(c)(3) nonprofit corporation considered a discretely presented component unit of the First District.

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

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

- General Fund - This category includes most of First District's basic services.
- Revolving Loan Fund and Disaster Relief Fund - This category includes money to be used for economic development activities

The following tables reflect the condensed statement of net position compared to the prior year (Table 1) and the condensed statement of activities compared to the prior year (Table 2).

	2014	2015
Assets:		
Cash and Cash Equivalents	\$1,399,710	\$1,417,146
Accounts Receivable, Net	\$135,499	\$102,077
Due from First District Development Company	\$48,620	\$31,179
Other Assets	\$7,696	\$7,342
Notes Receivable, Net	\$877,400	\$990,349
Capital Assets, Net of Accumulated Depreciation	\$15,985	\$13,936
Net Pension Asset	\$287,267	\$168,032
Total Assets	\$2,772,177	\$2,730,061
Deferred Outflows of Resources	\$222,400	\$282,200
Liabilities		
Other Liabilities		
Noncurrent liabilities	\$63,490	\$67,518
Total Liabilities	\$63,490	\$67,518
Deferred Inflows of Resources	\$332,704	\$247,935
Net Position		
Net Investment in Capital Assets	\$15,985	\$13,936
Restricted for Insurance	\$3,495	\$3,495
Restricted for Loans and Loan Commitments	\$1,404,124	\$1,431,701
SDRS Pension	\$176,963	\$202,297
Unrestricted	\$997,816	\$1,045,959
Total Net Position	\$2,598,383	\$2,697,388

	2014	2015
Charges for Services	\$657,766	\$637,523
Operating Grants	\$293,157	\$288,241
General Revenues		
County Support	\$172,837	\$183,721
City Support	\$57,237	\$60,051
Unrestricted Investment Earnings	\$4,440	\$5,233
Other General Revenues	\$5,916	\$2,400
Total Revenues	\$1,191,353	\$1,177,169
Expenses		
General Government	\$364,902	\$427,382
Public Works	\$176,555	\$132,981
Conservation and Development	\$553,099	\$517,801
Total Government Activities	\$1,094,556	\$1,078,164
Beginning Net Position	\$2,324,623	\$2,598,383
2014 Adjustment (GASBS No.68)	\$176,963	
Adjusted Net Position Beginning	\$2,501,586	\$2,598,383
Ending Net Position	\$2,598,383	\$2,697,388
Change in Net Position	\$96,797	\$99,005

Analysis of Overall Financial Position

- Total net position increased by \$99,005 or 3.8%
- Total assets decreased by \$42,116 or 1.5%. This decrease is primarily due to the decrease in Accounts receivable and the prior period adjustment (FY 2014) relating to Net Pension Assets. Accounts receivable decreased by \$33,422 or 24.7% due to a fewer of contract billings processed but not collected at the end of FY 2015 as compared to FY 2014.
- Total liabilities increased by \$4,028 or 6.3%. This is due primarily to an increase in annual leave accrued which would be payable to employees upon termination.
- The revenue from ordinary revenue producing projects decreased by \$14,184 or 1.2%.
- The staffing level held constant. Employee experience, institutional history, and contacts with other agencies are important factors in First District's success. Staff continuity, which is vital to First District's financial health, was maintained.
- Local government support for Fiscal Year 2015 increased by 3.0%. All government members maintained their membership in First District for FY 2015.

Capital Asset and Debt Administration

- Capital Assets – During 2015, First District purchased office equipment for \$4,305
- Debt Outstanding – First District has no debt outstanding in FY2015.

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

- The total dues for Fiscal Year 2016 will increase 3% to correspond with the FY 2013 to FY 2022 Dues Schedule.
- Basic governmental services such as grant-writing, GIS services and planning consultation should remain steady.
- Staff levels are expected to be maintained at the FY 2015 level.
- The First District's Governing Body adopted the FY 2016 budget on June 18, 2015. The approval of the budget provides funding for the First District's operating costs for FY 2016.

Contacting First District's Financial Management

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

First District Association of Local Governments
POB 1207
Watertown, SD 57201
Phone: (605) 882-5115)

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>First District Development Company</u>
ASSETS:		
Cash and Cash Equivalents	\$ 937,696	\$ 1,717,675
Certificates of Deposit	479,449	548,728
Accounts Receivable, net	102,077	21,016
Due from Component Unit	31,759	-
Other Assets	3,847	5,994
Deposits	3,495	-
Notes Receivable, Net of Allowances for Loan Losses	990,349	1,072,339
Net Pension Asset	168,032	-
Restricted Assets:		
Cash and Cash Equivalents	-	45,681
Capital Assets:		
Capital Assets, net of depreciation	<u>13,936</u>	<u>4,184</u>
Total Assets	<u>2,730,640</u>	<u>3,415,617</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension Related Deferred Outflows	<u>282,200</u>	<u>-</u>
LIABILITIES :		
Due to Primary Government	-	31,759
Other Current Liabilities	-	3,425
Noncurrent Liabilities:		
Due Within One Year	57,747	182,204
Due in More than One Year	<u>9,771</u>	<u>957,742</u>
Total Liabilities	<u>67,518</u>	<u>1,175,130</u>
DEFERRED INFLOWS OF RESOURCES:		
Pension Related Deferred Inflows	<u>247,935</u>	<u>-</u>
NET POSITION:		
Investment in Capital Assets	13,936	4,184
Restricted for:		
Insurance	3,495	-
Loans and Loan Commitments	1,431,701	848,044
SDRS Pension	202,297	-
Unrestricted	<u>1,045,959</u>	<u>1,388,259</u>
Total Net Position	<u>\$ 2,697,388</u>	<u>\$ 2,240,487</u>

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General Fund	Revolving Loan Fund	Disaster Relief Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 484,545	\$ 234,301	\$ 207,935	\$ 926,781
Certificates of Deposit	479,449	-	-	479,449
Accounts Receivable, net of allowances, if any:				
Federal Funding	19,273	-	-	19,273
County Support	4,496	-	-	4,496
Local Funding	78,308	-	-	78,308
Employee Receivable	264	-	-	264
Notes Receivable, Less Allowance for Loan Losses	-	696,564	293,785	990,349
Due from First District Development Company	31,759	-	-	31,759
Due from Other Funds	885	-	-	885
Accrued Interest Receivable	853	-	-	853
Prepaid Expense	2,730	-	-	2,730
Deposits	3,495	-	-	3,495
Total Assets	<u>\$ 1,106,057</u>	<u>\$ 930,865</u>	<u>\$ 501,720</u>	<u>\$ 2,538,642</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to Other Funds	\$ -	\$ -	\$ 885	\$ 885
Total Liabilities	<u>-</u>	<u>-</u>	<u>885</u>	<u>885</u>
Fund Balances:				
Nonspendable				
Cumulative Reserve Fund	3,495	-	-	3,495
Prepaid Expense	2,730	-	-	2,730
Restricted				
Loans and Loan Commitments	-	930,865	500,836	1,431,701
Unassigned	1,099,832	-	-	1,099,832
Total Fund Balances	<u>1,106,057</u>	<u>930,865</u>	<u>500,836</u>	<u>2,537,758</u>
Total Liabilities and Fund Balances	<u>\$ 1,106,057</u>	<u>\$ 930,865</u>	<u>\$ 501,721</u>	<u>\$ 2,538,643</u>

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Total Fund Balances - Governmental Funds		\$ 2,537,758
Amounts reported for governmental activities in the statement of net position are different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		
		168,032
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of Capital Assets	268,115	
Accumulated Depreciation	<u>(254,179)</u>	13,936
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.		
		282,200
Long-term liabilities, including accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Leave Payable	<u>(67,518)</u>	(67,518)
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.		
		(247,935)
Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.		
Assets	10,915	
Liabilities	<u>-</u>	<u>10,915</u>
Net Position - Governmental Funds		<u>\$ 2,697,388</u>

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Revolving Loan Fund</u>	<u>Disaster Relief Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Federal Funding	\$ 158,703	\$ -	\$ -	\$ 158,703
State Funding	129,538	-	-	129,538
Local Funding	852,936	3,566	-	856,502
Interest Income	<u>5,233</u>	<u>30,960</u>	<u>20,255</u>	<u>56,448</u>
Total Revenues	<u>1,146,410</u>	<u>34,526</u>	<u>20,255</u>	<u>1,201,191</u>
EXPENDITURES				
Current:				
General Government	433,999	-	-	433,999
Public Works	133,209	-	-	133,209
Conservation & Development	522,726	870	26,334	549,930
Capital Outlay	<u>4,305</u>	<u>-</u>	<u>-</u>	<u>4,305</u>
Total Expenditures	<u>1,094,239</u>	<u>870</u>	<u>26,334</u>	<u>1,121,443</u>
Excess of Revenues Over Expenditures	<u>52,171</u>	<u>33,656</u>	<u>(6,079)</u>	<u>79,748</u>
Net Change in Fund Balances	52,171	33,656	(6,079)	79,748
Fund Balance - Beginning	<u>1,053,886</u>	<u>897,209</u>	<u>506,915</u>	<u>2,458,010</u>
Fund Balance - Ending	<u>\$ 1,106,057</u>	<u>\$ 930,865</u>	<u>\$ 500,836</u>	<u>\$ 2,537,758</u>

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Net Change in Fund Balances - Total Governmental Funds \$ 79,748

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as
expenditures. However, in the statement of activities
the cost of those assets is allocated over their
estimated useful lives and reported as depreciation
expense. This is the amount by which depreciation
exceeded capital outlay in the current period.

Capital Outlay	\$	4,305	
Depreciation Expense		(6,354)	(2,049)

Governmental funds do not reflect the change in
accrued leave, but the statement of activities reflects
the change in accrued leave through expenditures. (4,028)

Changes in the pension related deferred inflows and
outflows are direct components of pensions asset and
are not reflected in the governmental funds. 25,334

Internal service funds are used by management to
charge the costs of certain activities to individual
funds. The net revenue (expense) of the internal
service funds is reported with the governmental
activities. -

Change in Net Position of Governmental Activities \$ 99,005

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	<u>Internal Service Funds</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 10,915
Total Current Assets	<u>10,915</u>
Total Assets	<u>10,915</u>
NET POSITION	
Unrestricted	<u>10,915</u>
Total Net Position	<u>\$ 10,915</u>

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Internal Service Funds</u>
OPERATING REVENUES	
Charges for Services	\$ -
OPERATING EXPENSES	
Self Insurance Claims	-
Total Operating Expenses	-
Operating Income	-
Change in Net Position	-
Net Position - Beginning	<u>10,915</u>
Net Position - Ending	<u>\$ 10,915</u>

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Receipts From Interfund Services Provided	\$ -
Net Cash Provided by Operating Activities	<u>-</u>
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	<u>10,915</u>
Cash and Cash Equivalents at End of Year	<u>\$ 10,915</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income	\$ -
Adjustments to Reconcile Operating Income to Net Cash Used in Operating Activities:	
Depreciation Expense	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ -</u>

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Association conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of First District Association of Local Governments (the Association), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

First District Association of Local Governments was established by Executive Order of the Governor #70-7 under the authority granted in Chapter 1-24 of the South Dakota Codified Laws of 1967 and amended by Executive Order 2000-03 by the State of South Dakota's governor's office. The Association was established to provide assistance in the areas of planning, industrial and economic development, performing studies, consultation and other technical assistance to local governmental units and small businesses in the eleven-county area served by the Association. The eleven counties covered are Brookings, Clark, Codington, Deuel, Grant, Hamlin, Kingsbury, Lake, Miner, Moody, and Roberts.

Funding or support is provided through payments received under contractual agreements with the governmental units the Association serves, State and Federal grants, and revenues generated through other Association activities. The Association is governed by a Governing Board consisting of representatives from the eleven-county area.

The Association has responsibility over a Revolving Loan Fund and Disaster Relief Fund which were funded by Federal grants. The Revolving Loan Fund's and Disaster Relief Fund's purpose is to promote business development in economically depressed areas by providing loans to new and expanding businesses that are unable to obtain conventional financing. As loans are repaid, the money is returned to the funds to be used for new loans. Revenues and expenditures of the Revolving Loan Fund and Disaster Relief Fund are accounted for as Special Revenue Funds.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

a. Financial Reporting Entity, continued

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

First District Development Company (the Development Company), a 501(c)(3) nonprofit corporation, is considered a proprietary fund-type, discretely presented component unit of the Association. The Development Company is governed by a ten-member Board of Directors appointed by the membership. Although it is legally separate from the Association, the Development Company is reported as a component unit because due to its close relation to or financial integration with the Association, its exclusion would render the financial statements incomplete or misleading. The financial report for the First District Development Company may be obtained by writing to the First District Development Company, 124 1st Ave NW, PO Box 1270, Watertown, SD 57201 or by calling (605) 882-5115.

The Development Company was formed to provide businesses with assistance and consultation in the preparation of documents necessary to obtain loans through the Small Business Administration 503/504 Loan Program. First District Development Company has entered into two loan agreements with Rural Development to establish an Intermediary Relending Program, a loan agreement with the South Dakota Board of Economic Development to establish a Revolving Loan Fund, and two loan agreements with the East River Electric Power Cooperative, Inc. to establish a Rural Economic Development Loan & Grant Program to provide loans to recipients eligible under the programs. An agreement has been entered into with First District Development Company whereby the Association provides services, office space, and supplies required by the Development Company. For the year ended September 30, 2015, the total costs reimbursed to the Association under the agreement and amount due to the Association are \$238,884 and \$31,759, respectively.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. 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 except for fiduciary funds and fiduciary-type component units. The statements distinguish between governmental activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1.a. above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a. above.

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Association's governmental activities. 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 (a) charges paid by recipients of goods and services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity 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. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Association or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. Basis of Presentation, continued:

2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Association are described below within their respective fund types:

Governmental Funds:

General Fund – The General Fund is the general operating fund of the Association. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Revolving Loan Fund – This fund accounts for revenues derived from federal and local monies dedicated for economic assistance loans under a Title IX Special Economic Development and Assistance Programs – Long-Term Economic Deterioration Revolving Loan Fund grant. This is a major fund.

Disaster Relief Fund – This fund accounts for revenues derived from federal and local monies dedicated for economic assistance loans under a Title IX Special Economic Development and Assistance Programs – Sudden and Severe Economic Dislocation Revolving Loan Fund grant. This is a major fund.

Proprietary Funds:

Internal Service Funds – internal service funds are used to account for the financing of goods or services provided by one fund, department, or agency to other funds, departments, or agencies of the Association and its component units, or to other governments, on a cost-reimbursement basis. Internal Service Funds are never considered to be major funds.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

c. Measurement Focus and Basis of Accounting:

Unemployment Fund – This fund accounts for unemployment benefits paid under the self-insurance method. Under this method, the Association pays claims as recipients draw benefits rather than making quarterly contributions to the State system based on a percentage of taxable payroll.

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, the governmental 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 proprietary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, the governmental and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are 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).

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

c. Measurement Focus and Basis of Accounting, continued:

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. The accrual period does not exceed one bill-paying cycle, and for the Association, the length of that cycle is 30 days. 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.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

Governmental-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental activities column of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental activities column,
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Funds, so that expenses are reported only in the function to which they relate,

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

e. Capital Assets:

Capital assets include equipment and vehicles that are used in operations and that have initial useful lives extending beyond a single reporting period. The Association has not established any capitalization thresholds; therefore, all equipment and vehicles are reported as capital assets. 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 cost. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Depreciation of the capital assets has been provided over the estimated useful lives (5-10 years) using the straight-line method.

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. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

f. Long-Term Liabilities:

The accounting treatment of long-term liabilities 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.

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

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. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

g. Pensions:

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, the pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. The Association's contributions and net pension asset are recognized on an accrual basis of accounting.

h. Deferred Inflows and Deferred Outflows of Resources:

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources (expenses) until the applicable future period.

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisition of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources (revenue) until the applicable future period.

i. Program Revenues:

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

j. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

k. Cash and Cash Equivalents:

The Association pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

l. Equity Classifications:

Government-wide Statements:

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

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and (if applicable) 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 does not meet the definition of "restricted" or "net investment of capital assets".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned, or unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

m. Application of Net Position:

It is the Association'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 position is available.

n. Fund Balance Classification Policies and Procedures:

In accordance with the Governmental Accounting Standards Board (GASB), the Association classifies governmental fund balances as follows:

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

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the Board of Directors, and does not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board of Directors.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Association 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 grant agreement requiring dollar for dollar spending. Additionally, the Association would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

o. Indirect Cost Allocation Plan:

Indirect costs are allocated to individual grants and projects based upon a fixed percentage of direct salaries and wages charged to the grant or project. This rate is reviewed annually and adjusted if necessary in an attempt to minimize over or under applied indirect costs. The indirect cost rate was 35.47 percent of direct salaries and wages for the year ended September 30, 2015. The indirect cost allocation plan has been prepared in accordance with the requirements of the South Dakota Department of Transportation and has been accepted by the U.S. Department of Commerce through their Economic Development Assistance Program. The indirect cost allocation plan is operated in accordance with guidelines established by the grantor agency and applicable cost principles.

p. Budgetary Comparison Schedules:

The Association is not legally required to adopt a budget for the General Fund or the major special revenue funds; therefore, the budgetary comparison information is not presented as required supplementary information or as a basic financial statement.

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

As of October 1, 2014, the Association adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability/asset, deferred outflows of resources, deferred inflows of resources, and pension expense (revenue). The effect of the implementation of these standards on beginning net position is disclosed below and the additional disclosures required by these standards are included in Note 8.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

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

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

Net Position - September 30, 2014, as previously reported	\$ 2,421,420
Restatement for pension accounting:	
Net Pension Asset	287,267
Pension Related Deferred Outflows of Resources	222,400
Pension Related Deferred Inflows of Resources	<u>(332,704)</u>
Net Position - October 1, 2014, as restated	<u>\$ 2,598,383</u>

3. DEPOSITS AND INVESTMENTS

The Association's deposits are made in qualified public depositories. Qualified depositories are required 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.

Credit Risk

The Association does not have a formal investment policy that limits its investment choices.

Custodial Credit Risk - Deposits

The risk that, in the event of a depository failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. As of September 30, 2015, the Association's deposits in financial institutions were not exposed to any custodial credit risk.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

3. DEPOSITS AND INVESTMENTS, continued

Custodial Credit Risk - Investments

The risk that, in the event of the failure of the counterparty to a transaction, the Association will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2015, the Association did not have any investments.

Interest Rate Risk

The Association does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income

The Association's policy is to credit all income from investments to the fund making the investment, except for the Unemployment Fund which is credited to the General Fund.

Custodial Credit Risk – Deposits - Component Unit

The Development Company maintains its cash balances in three financial institution, and at various times during the year ending September 30, 2015, the balances exceeded the Federal Deposit Insurance Corporation (FDIC) limits. The Development Company had balances exceeding FDIC limits of \$1,565,169 as of September 30, 2015. The financial institution in which the Development Company has deposited funds relating to the Intermediary Relending Program has pledged US Treasury Notes as collateral to cover the balances in excess of FDIC limits.

4. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Association expects all receivables, except for the notes receivable, to be collected within one year.

Appropriate allowances for uncollectible accounts have been established as follows:

Disaster Relief Fund	\$ 39,830
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FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2015 is as follows:

Primary Government

	<u>Balance 10/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2015</u>
Governmental Activities:				
Capital assets, being depreciated:				
Equipment and Vehicles	\$ 263,810	\$ 4,305	\$ -	\$ 268,115
Less accumulated depreciation for:				
Equipment and Vehicles	<u>247,825</u>	<u>6,354</u>	<u>-</u>	<u>254,179</u>
Total capital assets being depreciated, net	<u>15,985</u>	<u>(2,049)</u>	<u>-</u>	<u>13,936</u>
Governmental Activities, capital assets, net	<u>\$ 15,985</u>	<u>\$ (2,049)</u>	<u>\$ -</u>	<u>\$ 13,936</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Depreciation – General Government	\$ 2,118
Depreciation – Public Works	2,118
Depreciation – Conservation & Development	<u>2,118</u>
Total depreciation expense – governmental activities	<u>\$ 6,354</u>

Component Unit

	<u>Balance 10/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2015</u>
Component Unit:				
Capital assets, being depreciated:				
Equipment and Vehicles	\$ 26,959	\$ 371	\$ -	\$ 27,330
Less accumulated depreciation for:				
Equipment and Vehicles	<u>20,825</u>	<u>2,321</u>	<u>-</u>	<u>23,146</u>
Total capital assets being depreciated, net	<u>6,134</u>	<u>(1,950)</u>	<u>-</u>	<u>4,184</u>
Component Unit, capital assets, net	<u>\$ 6,134</u>	<u>\$ (1,950)</u>	<u>\$ -</u>	<u>\$ 4,184</u>

Depreciation expense of \$2,321 for the component unit was all charged to the SBA Loan Program.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

6. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended September 30, 2015 is as follows:

Primary Government

	<u>Balance 10/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2015</u>	<u>Current Portion</u>
Governmental Activities:					
Compensated Absences	\$ 63,490	\$ 61,775	\$ (57,747)	\$ 67,518	\$ 57,747

Liabilities payable at September 30, 2015 are comprised of the following:

Compensated Absences

Compensated absences consist of accrued vacation leave which will be paid by the General Fund.

Component Unit

	<u>Balance 10/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2015</u>	<u>Current Portion</u>
Component Unit:					
Notes Payable	\$ 1,332,786	\$ -	\$ (192,840)	\$ 1,139,946	\$ 182,204

Notes Payable

All long-term liabilities of the component unit consist of notes payable as follows:

On July 7, 1992, First District Development Company entered into a loan agreement with Rural Development to establish an Intermediary Relending Program, with up to \$1,000,000 being used to make loans to eligible recipients. Under the terms of this agreement, interest only at 1% is due annually for the first three years, with annual installments of principal and interest beginning July 7, 1996 payable from the Intermediary Relending Program. The loan due date is July 7, 2022. As of September 30, 2015, the entire \$1,000,000 has been advanced to the Development Company, and the loan balance was \$278,619. Total interest incurred during the year ended September 30, 2015 was \$3,095.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

6. LONG-TERM LIABILITIES, continued

Notes Payable, continued

On March 7, 2002, First District Development Company entered into a loan agreement with Rural Development to establish an Intermediary Relending Program, with up to \$750,000 being used to make loans to eligible recipients. Under the terms of this agreement, interest only at 1% is due annually for the first three years, with annual installments of principal and interest beginning March 7, 2006 payable from the Intermediary Relending Program #2. The loan due date is March 7, 2032. As of September 30, 2015, loan proceeds of \$750,000 have been advanced to the Development Company, and the loan balance was \$485,797. Total interest incurred during the year ended September 30, 2015 was \$4,973.

On September 15, 2005, First District Development Company entered into a loan agreement with Heartland Consumer Power District to borrow \$79,000. Under the terms of this agreement, interest only at 4% is due semiannually for the first two years, with semiannual installments of principal and interest beginning March 15, 2008 payable from the Intermediary Relending Program #2. The loan due date was September 15, 2015. As of September 30, 2015, the entire \$79,000 has been advanced to the Development Company, and the loan balance was \$-0-. Total interest incurred during the year ended September 30, 2015 was \$320.

On January 15, 2009, First District Development Company entered into a loan agreement with East River Electric Power Cooperative, Inc. to borrow \$300,000. Under the terms of this agreement, monthly installments of \$2,778 including interest at 0% are due beginning on January 15, 2010 payable from the Rural Economic Development Loan & Grant Program. The loan due date is December 15, 2018. As of September 30, 2015, the loan balance was \$108,318.

On January 15, 2009, First District Development Company entered into a loan agreement with East River Electric Power Cooperative, Inc. to borrow \$740,000. Under the terms of this agreement, monthly installments of \$6,852 including interest at 0% are due beginning on January 15, 2010 payable from the Rural Economic Development Loan & Grant Program. The loan due date is December 15, 2018. As of September 30, 2015, the loan balance was \$267,212.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

6. LONG-TERM LIABILITIES, continued

Notes Payable, continued

The annual requirements to amortize all component unit debt outstanding as of September 30, 2015 are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 182,204	\$ 7,644	\$ 189,848
2017	182,870	6,978	189,848
2018	183,543	6,305	189,848
2019	97,513	5,625	103,138
2020	69,350	4,938	74,288
2021 – 2025	220,939	15,653	236,592
2026 – 2030	152,024	7,166	159,190
2031 – 2032	<u>51,503</u>	<u>716</u>	<u>52,219</u>
	<u>\$ 1,139,946</u>	<u>\$ 55,025</u>	<u>\$ 1,194,971</u>

7. INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS

Interfund receivable and payable balances at September 30, 2015 were:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 885	\$ -
Disaster Relief Fund	-	885

The interfund receivable and payable balances are due to the General Fund paying the expenditures and the other funds reimbursing the General Fund for their proportionate share.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued SEPTEMBER 30, 2015

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

Benefits Provided

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

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

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

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

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

8. PENSION PLAN, continued

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Association's share of contributions to the SDRS for the fiscal years ended September 30, 2015, 2014 and 2013 was \$43,910, \$42,158 and \$39,243 respectively, equal to the required contributions each year.

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

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

Proportionate share of net position restricted for pension benefits	\$ 4,269,469
Less proportionate share of total pension liability	<u>4,101,437</u>
Proportionate share of net pension asset	<u>\$ 168,032</u>

At September 30, 2015, the Association reported an asset of \$168,032 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the Association's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Association's proportion was 0.03961820%.

For the year ended September 30, 2015, the Association recognized pension expense of \$68,461. At September 30, 2015 the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

8. PENSION PLAN, continued

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 34,405	\$ -
Changes in assumptions	133,239	-
Net difference between projected and actual earnings on pension plan investments	102,648	247,935
Changes in proportion and difference between Association contributions and proportionate share of contributions	823	-
Commission contributions subsequent to the measurement date	<u>11,085</u>	<u>-</u>
Total	<u>\$ 282,200</u>	<u>\$ 247,935</u>

\$11,085 reported as deferred outflow of resources related to pensions resulting from Association contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

	<u>Year Ended June 30</u>	
2016	\$	7,962
2017		7,962
2018		(21,420)
2019		<u>27,854</u>
Total	\$	<u>22,358</u>

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

8. PENSION PLAN, continued

Actuarial Assumptions

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

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

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	<u>2.0%</u>	0.0%
Total	<u>100.0%</u>	

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

8. PENSION PLAN, continued

Discount Rate

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Association's proportionate share of the net pension liability (asset)	\$ 422,935	\$ (168,032)	\$ (649,918)

Pension Plan Fiduciary Net Position

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

9. RISK MANAGEMENT

The Association 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 year ended September 30, 2015, the Association managed its risks as follows:

Employee Health Insurance

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

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015

9. RISK MANAGEMENT, continued

Liability Insurance

The Association purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

The Association 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 management services, loss control and risk reduction information and to obtain lower costs for the coverage. The Association'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 Association. The Association pays an annual premium to provide liability detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Association pays an annual premium to the pool to provide coverage for officials' liability.

The agreement with the SDPAA provides that the above coverage will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The Association would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of Association's First Full Year	50%
End of Association's Second Full Year	60%
End of Association's Third Full Year	70%
End of Association's Fourth Full Year	80%
End of Association's Fifth Full Year	90%
End of Association's Sixth Full Year and Thereafter	100%

As of September 30, 2015, the Association has a vested balance in the cumulative reserve fund of \$3,495.

The Association carries a \$2,500 deductible for the officials' liability coverage.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

**NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2015**

9. RISK MANAGEMENT, continued

Liability Insurance, continued

The Association 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 Association purchases liability insurance for worker's compensation from a commercial insurance carrier.

Unemployment Benefits

The Association has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The Association has resources in the Unemployment Fund in the amount of \$10,915 for the payment of future unemployment benefits.

During the year ended September 30, 2015, no claims for unemployment benefits were paid. At September 30, 2015 no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

10. LITIGATION

At September 30, 2015, the Association was not involved in any litigation.

REQUIRED SUPPLEMENTARY INFORMATION

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION ASSET

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>
Association's proportion of the net pension asset	0.0398728%	0.0396182%
Association's proportionate share of net pension asset	\$ 287,267	\$ 168,032
Association's covered-employee payroll	\$ 697,226	\$ 723,311
Association's proportionate share of the net pension asset as a percentage of its covered-employee payroll	41.20%	23.23%
Plan fiduciary net position as a percentage of the total pension asset	107.3%	104.1%

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

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF THE ASSOCIATION'S CONTRIBUTIONS

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 42,158	\$ 43,910
Contributions in relation to the contractually required contribution	<u>42,158</u>	<u>\$ 43,910</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Association's covered-employee payroll	\$ 702,633	\$ 731,833
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

See Independent Auditor's Report

SUPPLEMENTARY INFORMATION

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Federal Grantor/ Project Grant/ Program Title	Federal CFDA Number	Project/ Grant Number	Current Year Expenditures
U.S. Department of Commerce:			
Direct Federal Funding:			
Economic Development - Support for Planning Organizations: Planning Assistance Grant	11.302	05-83-05294-01 05-83-05294-02	\$ 12,582 <u>46,871</u> \$ 59,453
Economic Adjustment Assistance: Revolving Loan Fund Grant - Note 2 Revolving Loan Fund Grant - Note 2	11.307	05-39-02254 05-19-59025	931,761 <u>528,055</u> <u>1,459,816</u>
Total U.S. Department of Commerce			<u>1,519,269</u>
U.S. Department of Transportation:			
Indirect Federal Funding:			
Passed through the S.D. Department of Transportation: Highway Planning and Construction	20.205	311209	<u>89,250</u>
Total Federal Expenditures - Note 3			<u>\$ 1,608,519</u>

Note 1:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Association and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2: Revolving Loan Fund Grants

	Revolving Loan Fund	Disaster Relief Fund
As of September 30, 2015:		
Balance of notes receivable	\$ 696,564	\$ 293,785
Cash Balance	234,301	207,936
Administrative expenses paid during Fiscal year 2014	<u>896</u>	<u>26,334</u>
Total Expenditures	931,761	528,055
Less local portion	<u>-</u>	<u>-</u>
Total Federal Expenditures	<u>\$ 931,761</u>	<u>\$ 528,055</u>

Note 3:

The total only includes the federal expenditures of the First District Association of Local Governments, the primary government, and does not include the federal expenditures of the First District Development Company, a component unit of the First District Association of Local Governments

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 ECONOMIC DEVELOPMENT PLANNING ASSISTANCE GRANT 05-83-05294-01
 AWARD PERIOD: JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

	Budget	Actual Through 9/30/2014	Current Year	Total
Revenues				
Federal Funding	\$ 62,000	\$ 49,418	\$ 12,582	\$ 62,000
Local Funding	62,000	49,418	19,315	68,733
Total Revenues	<u>124,000</u>	<u>98,836</u>	<u>31,897</u>	<u>130,733</u>
Expenditures				
Personnel	62,000	55,989	18,189	74,178
Fringe Benefits	22,000	16,024	4,829	20,853
Travel & Lodging	7,200	5,027	1,798	6,825
Indirect Costs	32,800	21,796	7,081	28,877
Total Expenditures	<u>124,000</u>	<u>98,836</u>	<u>31,897</u>	<u>130,733</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
ECONOMIC DEVELOPMENT PLANNING ASSISTANCE GRANT 05-83-05294-02
AWARD PERIOD: JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

	<u>Budget</u>	<u>Actual</u>
Revenues		
Federal Funding	\$ 62,000	\$ 46,871
Local Funding	62,000	46,871
Total Revenues	<u>124,000</u>	<u>93,742</u>
Expenditures		
Personnel	62,000	55,146
Fringe Benefits	22,000	14,298
Travel & Lodging	7,200	4,738
Indirect Costs	32,800	19,560
Total Expenditures	<u>124,000</u>	<u>93,742</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 SOUTH DAKOTA GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT
 TECHNICAL ASSISTANCE AGREEMENTS
 AWARD PERIOD: JULY 1, 2015 THROUGH JUNE 30, 2015

	Budget	Actual		Total
		Through 9/30/2014	Current Year	
Revenues				
Federal Funding	\$ 10,000	\$ 10,000	\$ -	\$ 10,000
State Funding	25,000	6,250	18,750	25,000
Total Revenues	<u>35,000</u>	<u>16,250</u>	<u>18,750</u>	<u>35,000</u>
Expenditures				
Personnel	-	7,158	15,032	22,190
Fringe Benefits	-	1,978	3,724	5,702
Travel & Lodging	-	621	1,721	2,342
Indirect Costs	-	2,786	5,641	8,427
Total Expenditures	* <u>35,000</u>	<u>12,543</u>	<u>26,118</u>	<u>38,661</u>
Excess of Revenues Over Expenditures	\$ <u>-</u>	\$ <u>3,707</u>	\$ <u>(7,368)</u>	\$ <u>(3,661)</u>

* No detailed budget of expenditures.

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 SOUTH DAKOTA GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT
 TECHNICAL ASSISTANCE AGREEMENTS
 AWARD PERIOD: JULY 1, 2016 THROUGH JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>
Revenues		
Federal Funding	\$ 10,000	\$ 10,000
State Funding	<u>25,000</u>	<u>6,250</u>
Total Revenues	<u>35,000</u>	<u>16,250</u>
Expenditures		
Personnel	-	5,872
Fringe Benefits	-	1,486
Travel & Lodging	-	608
Indirect Costs	<u>-</u>	<u>2,083</u>
Total Expenditures	* <u>35,000</u>	<u>10,049</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ 6,201</u>

* No detailed budget of expenditures.

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 SOUTH DAKOTA HOUSING DEPARTMENT OF AGRICULTURE
 SITE ANALYSIS
 AWARD PERIOD: AUGUST 15, 2013 THROUGH JUNE 30, 2015

	Budget	Actual		Total
		Through 9/30/2014	Current Year	
Revenues				
State Funding	\$ 200,000	\$ 100,000	\$ 100,000	\$ 200,000
Total Revenues	<u>200,000</u>	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Expenditures				
Personnel	-	36,007	29,629	65,636
Fringe Benefits	-	9,093	7,605	16,698
Professional Fees	-	51,500	45,500	97,000
Travel & Lodging	-	1,867	605	2,472
Indirect Costs	-	13,805	10,613	24,418
Total Expenditures	* <u>200,000</u>	<u>112,272</u>	<u>93,952</u>	<u>206,224</u>
Excess of Revenues Under Expenditures	\$ -	\$ (12,272)	\$ 6,048	\$ (6,224)

* No detailed budget of expenditures.

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 SOUTH DAKOTA ONE CALL
 AWARD PERIOD: JULY 1, 2014 THROUGH JUNE 30, 2015

	Budget	Actual		Total
		Through 9/30/2014	Current Year	
Revenues				
GIS Services	\$ 50,000	\$ 14,000	\$ 36,000	\$ 50,000
Total Revenues	<u>50,000</u>	<u>14,000</u>	<u>36,000</u>	<u>50,000</u>
Expenditures				
Personnel	-	6,410	16,714	23,124
Fringe Benefits	-	1,212	2,684	3,896
Travel & Lodging	-	-	432	432
Indirect Costs	-	2,495	6,167	8,662
Total Expenditures	* <u>50,000</u>	<u>10,117</u>	<u>25,997</u>	<u>36,114</u>
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 3,883	\$ 10,003	\$ 13,886

* No detailed budget of expenditures.

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 SOUTH DAKOTA ONE CALL
 AWARD PERIOD: JULY 1, 2015 THROUGH JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>
Revenues		
Local Funding	\$ 50,000	\$ 10,200
Total Revenues	<u>50,000</u>	<u>10,200</u>
Expenditures		
Personnel	-	4,746
Fringe Benefits	-	642
Indirect Costs	-	1,683
Total Expenditures	* <u>50,000</u>	<u>7,071</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ 3,129</u>

* No detailed budget of expenditures.

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY
TECHNICAL SERVICE AGREEMENTS
AWARD PERIOD: OCTOBER 1, 2014 THROUGH SEPTEMBER 30, 2015

	<u>Actual</u>
Revenues	
State Funding	\$ 2,500
Total Revenues	<u>2,500</u>
Expenditures	
Personnel	2,051
Fringe Benefits	544
Travel & Lodging	713
Indirect Costs	<u>762</u>
Total Expenditures	<u>4,070</u>
Excess of Revenues Under Expenditures	<u>\$ (1,570)</u>

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FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 SOUTH DAKOTA DEPARTMENT OF TRANSPORTATION INTERSTATE
 AWARD PERIOD: MARCH 1, 2015 THROUGH SEPTEMBER 30, 2015

	<u>Budget</u>	<u>Actual</u>
Revenues		
State Funding	\$ 4,500	\$ 4,538
Total Revenues	<u>4,500</u>	<u>4,538</u>
Expenditures		
Personnel	-	4,827
Fringe Benefits	-	653
Dues & Subscriptions	-	170
Supplies	-	129
Travel & Lodging	-	326
Indirect Costs	-	1,712
Total Expenditures	* <u>4,500</u>	<u>7,817</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (3,279)</u>

* No detailed budget of expenditures.

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 SOUTH DAKOTA DEPARTMENT OF TRANSPORTATION 311209
 AWARD PERIOD: DECEMBER 29, 2014 THROUGH SEPTEMBER 30, 2015

	<u>Budget</u>	<u>Actual</u>
Revenues		
Federal Funding	\$ 89,250	\$ 89,250
Total Revenues	<u>89,250</u>	<u>89,250</u>
Expenditures		
Personnel	-	59,447
Fringe Benefits	-	9,812
Vehicle Expense	-	711
Gas, Fuel & Oil	-	336
Insurance	-	16
Professional Fees	-	2
Travel & Lodging	-	913
Indirect Costs	-	21,086
Total Expenditures	* <u>87,480</u>	<u>92,323</u>
Excess of Revenues Over Expenditures	<u>\$ 1,770</u>	<u>\$ (3,073)</u>

* No detailed budget of expenditures.

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 ECONOMIC DEVELOPMENT REVOLVING LOAN FUND GRANT 05-39-02254
 AWARD PERIOD: PERPETUAL

	Actual		
	Through 9/30/2014	Current Year	Total
Revenues			
Federal Funding	\$ 500,000	\$ -	\$ 500,000
Local Funding	166,667	-	166,667
Loan Processing Fees	56,347	3,566	59,913
Interest on Notes Receivable	746,139	29,290	775,429
Interest on Deposits	147,738	1,670	149,408
Miscellaneous	9,189	-	9,189
Recovery on Defaulted Loans	45,120	-	45,120
Total Revenues	1,671,200	34,526	1,705,726
Expenditures			
Bad Debts	14,071	(14,071)	-
Bank Charges	(5)	-	(5)
Capital Outlay	9	2	11
Contract Labor	1,814	334	2,148
Software	37	7	44
Internet/Web Service	192	55	247
Fringe Benefits - Health Insurance	6,915	-	6,915
Insurance	1,004	429	1,433
Accounting	837	271	1,108
Fringe Benefits - FICA	3,513	865	4,378
Fringe Benefits - Retirement	2,590	683	3,273
Postage	126	7	133
Professional Fees	2,984	106	3,090
Repairs and Maintenance	57	15	72
Rent	2,108	418	2,526
Personnel	46,682	11,385	58,067
Supplies	1,048	98	1,146
Copier	251	97	348
Telephone	684	100	784
Travel and Lodging	696	69	765
Audit	788	-	788
Administrative Costs	359,517	-	359,517
Loan Defaults	328,075	-	328,075
Total Expenditures	773,993	870	774,863
Excess of Revenues Over Expenditures	\$ 897,207	\$ 33,656	\$ 930,863

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT/PROJECT
 ECONOMIC DEVELOPMENT REVOLVING LOAN FUND GRANT 05-19-59025
 AWARD PERIOD: PERPETUAL

	Actual		
	Through 9/30/2014	Current Year	Total
Revenues			
Federal Funding	\$ 400,000	\$ -	\$ 400,000
Local Funding	59,454	-	59,454
Loan Processing Fees	20,025	-	20,025
Interest on Notes Receivable	252,656	18,988	271,644
Interest on Deposits	38,745	1,267	40,012
Total Revenues	<u>770,880</u>	<u>20,255</u>	<u>791,135</u>
Expenditures			
Bad Debts	22,669	17,160	39,829
Bank Charges	250	-	250
Capital Outlay	7	1	8
Contract Labor	1,142	275	1,417
Software	25	4	29
Internet/Web Service	113	47	160
Fringe Benefits - Health Insurance	3,952	-	3,952
Insurance	893	407	1,300
Accounting	452	190	642
Fringe Benefits - FICA	1,997	479	2,476
Fringe Benefits - Retirement	1,387	381	1,768
Postage	60	6	66
Professional Fees	1,797	168	1,965
Repairs and Maintenance	33	13	46
Rent	1,320	339	1,659
Personnel	26,524	6,355	32,879
Supplies	732	83	815
Copier	157	88	245
Telephone	431	85	516
Travel and Lodging	423	253	676
Administrative Costs	151,574	-	151,574
Loan Defaults	48,026	-	48,026
Total Expenditures	<u>263,964</u>	<u>26,334</u>	<u>290,298</u>
Excess of Revenues Over Expenditures	<u>\$ 506,916</u>	<u>\$ (6,079)</u>	<u>\$ 500,837</u>

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS
SCHEDULE OF LOCAL REVENUES AND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Total	Operations	REDLG Administration	Revolving Loan Fund Administration	Disaster Relief Fund Administration	Intermediary Relending Program Administration	Intermediary Relending Program #2 Administration
Revenues							
City Support	\$ 60,051	\$ 60,051	\$ -	\$ -	\$ -	\$ -	\$ -
County Support	183,721	183,721	-	-	-	-	-
Program Charges	345,387	295,158	10,740	14,941	9,081	6,223	9,244
Rent	2,400	2,400	-	-	-	-	-
Interest Income	5,233	5,233	-	-	-	-	-
Total Revenues	596,792	546,563	10,740	14,941	9,081	6,223	9,244
Expenditures							
Personnel	229,527	192,195	8,313	11,385	6,355	4,523	6,756
Fringe Benefits	48,234	42,857	1,195	1,548	861	727	1,046
Accounting	1,112	-	241	271	190	162	248
Bank Charges	33	33	-	-	-	-	-
Contract Labor	1,370	-	264	334	275	193	304
Copier	424	-	76	97	88	66	97
Dues & Subscriptions	3,463	3,463	-	-	-	-	-
Equipment	4,305	4,297	-	2	-	2	2
Internet/Web Service	230	-	44	55	47	33	51
Insurance	978	-	59	429	407	28	55
Postage	104	74	5	7	6	4	8
Professional Fees	21,878	21,455	39	106	75	98	105
Repairs and Maintenance	167	107	12	15	13	10	10
Rent	1,697	-	329	418	339	239	372
Software	22	-	5	7	4	3	3
Supplies	1,266	836	78	98	83	73	98
Telephone	414	-	78	100	85	62	89
Travel & Lodging	21,471	21,149	-	69	253	-	-
Indirect Costs	70,489	70,489	-	-	-	-	-
Total Expenditures	407,184	356,955	10,740	14,941	9,081	6,223	9,244
Excess of Revenues Over Expenditures	\$ 189,608	\$ 189,608	\$ -	\$ -	\$ -	\$ -	\$ -
Net Revenues Applied to Grants as Local Match	(66,186)						
Underapplied Indirect Costs	(81,341)						
Net Revenues Over Expenditures	\$ 42,081						

See Independent Auditor's Report

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF INDIRECT COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Personnel	\$ 131,011
Fringe Benefits	32,696
Accounting	8,340
Audit	5,438
Capital Outlay	-
Copier	6,303
Dues & Subscriptions	356
Insurance	4,957
Internet/Web Service	1,802
Postage	3,381
Professional Fees	267
Repairs and Maintenance	599
Rent	27,394
Software	204
Supplies	2,345
Telephone	<u>3,126</u>
Total Indirect Costs	228,219
Indirect Costs Applied	<u>(146,878)</u>
Underapplied Indirect Costs	<u>\$ 81,341</u>

See Independent Auditor's Report

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

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

To the Governing Board
First District Association of Local Governments
Watertown, South Dakota

We have audited, 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, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **First District Association of Local Governments** (hereinafter referred to as the Association), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated May 2, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the 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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Association in a separate letter dated May 2, 2016.

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.

Uhlenberg Ritzman + Co., LLC
Yankton, South Dakota
May 2, 2016

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Governing Board
First District Association of Local Governments
Watertown, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the First District Association of Local Government's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the First District Association of Local Government's major federal programs for the year ended September 30, 2015. The First District Association of Local Government's (hereinafter referred to as the Association) major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The Association's basic financial statements include the operations of the First District Development Company (discretely presented component unit), which received \$830,400 in federal awards which are not included on the schedule of expenditures of federal awards for the year ended September 30, 2015. Our audit, described below, did not include the operations of the First District Development Company because the component unit has a separately issued audit in accordance with *OMB Circular A-133*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

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Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the First District Association of Local Government, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2015.

Report on Internal Control over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
May 2, 2016

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

SECTION II. FINDINGS - FINANCIAL STATEMENTS AUDIT

There were no financial statement audit findings reported.

SECTION III. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no major federal award program audit findings reported.

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses 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 weaknesses 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 Section 510(a) of OMB Circular A-133

_____ yes X no

Identification of major programs:

CFDA Numbers
11.307

Name of Federal Program or Cluster
Economic Adjustment Assistance

Dollar Threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

X yes _____ no

FIRST DISTRICT ASSOCIATION OF LOCAL GOVERNMENTS

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS - continued
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

SECTION II. FINDINGS - CURRENT FINANCIAL STATEMENTS AUDIT

There are no financial statement audit findings reported.

SECTION III. FINDINGS - CURRENT MAJOR FEDERAL AWARD PROGRAMS

There are no major program audit findings reported.