

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
TIMBER LAKE, SOUTH DAKOTA
AUDIT REPORT
FOR THE YEAR THEN ENDED
JUNE 30, 2019

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITORS' 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***

School Board
Timber Lake School District No. 20-3
Timber Lake, 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, business-type activities, each major fund, and the aggregate remaining fund information of the Timber Lake School District No. 20-3, South Dakota (School District) as of June 30, 2019 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 17, 2019

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District'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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs, items 2019-001 through 2019-003 to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Timber Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under Government Auditing Standards.

School District's Response to Findings

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Caill Bower

Mobridge, South Dakota
October 17, 2019



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

School Board
Timber Lake School District No 20-3
Timber Lake, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the Timber Lake School District No. 20-3's, South Dakota (School District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2019. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District'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 Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Timber Lake School District No 20-3, South Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. 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.

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.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes. 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.

Cailee Bauer

Mobridge, South Dakota
October 17, 2019

Timber Lake School District No. 20-3

PO Box 1000 - 500 Main Street
Timber Lake, South Dakota 57656

Dan Martin, Superintendent
Amanda Hermes, Business Manager

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number 2018-001:

A material weakness was reported for a lack of segregation of duties for cash, revenues, receivables, inventories, payables, trust and agency, capital assets, budget, indebtedness, and equity.

Current Status

Ongoing: Condition still exists, see current audit finding number 2019-001. The reason for recurrence is due to cost considerations, the School District has determined it is not practical to employ additional staff to adequately segregate duties. The School District will implement compensating controls where practical.

Finding Number 2018-002:

The School District does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures in accordance with generally accepted accounting principles.

Current Status

Ongoing: Condition still exists, see current audit finding number 2019-002. The reason for recurrence is due to cost considerations, the School District accepts the risks associated with the auditors preparing the financial statements. The School District will implement compensating controls where practical.

Finding Number 2018-003:

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the School District's existing internal controls, and therefore could have resulted in a material misstatement of the School District's financial statements.

Current Status

Ongoing: Condition still exists, see current audit finding number 2019-003. The reason for recurrence is due to cost considerations, the School District has determined it is not practical to employ additional staff to implement an internal control structure adequate to identify all material adjustments. The School District will implement compensating controls where practical.

Finding Number 2018-004:

During the audit fieldwork, instances where the 457b deductions for employees participating, were found as excluded in the calculation of eligible wages for SD Retirement.

Current Status

This finding has been corrected.

Mission Statement

"Timber Lake School provides a safe environment that empowers students to become critical thinkers and responsible lifelong learners in a changing society."

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

Financial Statements

- a. An unmodified opinion was issued on the financial statements.
- b. A material weakness was disclosed by our audit of the financial statements. They are described in findings 2019-001, 2019-002 and 2019-003.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the 2 CFR 516(a).
- f. The federal award tested as major program was:
Impact Aid - CFDA No. 84.041
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- h. Timber Lake School District No. 20-3 did not qualify as a low-risk auditee.

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Finding Number 2019-001:

Criteria

The internal control system of a School can help assist in achieving its performance targets and prevent the loss of resources. It helps to ensure reliable financial reporting and the compliance with laws and regulations.

Condition Found

A material weakness was reported for a lack of segregation of duties for cash, revenues, receivables, inventories, payables, trust and agency, capital assets, budget, indebtedness, and equity. This is undesirable from an internal control viewpoint, and could result in a loss of control over accounting transactions and errors not being found in a timely manner.

Identification of Repeat Finding:

This finding is a restatement of 2018-001. It has been a finding since 2003.

Effect

The School District has a limited number of office personnel and, accordingly, does not have adequate internal controls in revenue, expenditures, and payroll functions because of a lack of segregation duties.

Recommendation

We recommend a high level of awareness be maintained by management to assist in preventing, detecting, or correcting matters that may arise due to this internal control weakness. Compensating controls should be implemented as necessary.

Views of responsible officials and corrective actions

See the School District's corrective action plan.

Finding Number 2019-002:

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

Condition Found

The School District does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles. As auditors, we were requested to draft the financial statements.

Identification of Repeat Finding:

This finding is a restatement of 2018-002. This has been a finding since 2006.

Effect

This condition may affect the School District's ability to record, process, summarize, and report financial statement data consistent with the assertions of management in the financial statements.

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations.

Views of responsible officials and corrective actions

See the School District's corrective action plan.

Finding Number 2019-003:

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with generally accepted accounting principles.

Condition Found

While conducting our audit, we proposed material audit adjustments that would not have been identified as a result of the School District's existing internal controls, and therefore could have resulted in a material misstatement of the School District's financial statements.

Identification of Repeat Finding:

This finding is a restatement of 2018-003. This has been a finding since 2006.

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
JUNE 30, 2019

Effect

This condition may affect the School District's ability to record, process, summarize, and report financial statement data consistent with the assertions of management in the financial statements.

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other

Views of responsible officials and corrective actions

See the School District's corrective action plan.

Timber Lake School District No. 20-3

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CORRECTIVE ACTION PLAN

Finding Number 2019-001

Internal control over financial reporting and compliance is not adequate.

Views of responsible officials and planned corrective actions:

Dan Martin, is the contact at this entity responsible for the corrective action plan for this comment. Due to staff size, it is not deemed feasible to adequately segregate duties. However, we are aware of this internal control weakness and intend to provide continuous monitoring in an effort to prevent, detect, or correct any matters that may result.

Finding Number 2019-002

The School District does not have an internal control system designed to provide for the preparation of the financial statements including required footnotes and disclosures, in accordance with generally accepted accounting principles.

Views of responsible officials and planned corrective actions:

Dan Martin, is the contact at this entity responsible for the corrective action plan for this comment. Both the School Board and management are aware of this process and have expressed their confidence in that the information is accurate and they are willing to accept this risk.

Finding Number 2019-003

The School District does not have an internal control system designed to provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with generally accepted accounting principles.

Views of responsible officials and planned corrective actions:

Amanda Hermes, is the contact person at this entity responsible for the corrective action plan for this comment. Management is aware of their overall responsibility for the completeness of the School District's financial statements and the necessity for those to be complete with all material adjustments reflected and will attempt to complete all material adjustments for future financial statements.


Business Manager


Superintendent

Mission Statement

"Timber Lake School provides a safe environment that empowers students to become critical thinkers and responsible lifelong learners in a changing society."



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

School Board
Timber Lake School District No. 20-3
Timber Lake, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Timber Lake School District No. 20-3, as of June 30, 2019 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The School District's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District'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.

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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 business-type activities, each major fund, and the aggregate remaining fund information of the Timber Lake School District No. 20-3 as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, Schedule of School District Contributions, and Schedule of the School District's Proportionate Share of the Net Pension Liability (Asset) on pages 43 through 51 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.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2019 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Cahtel Bauer

Mobridge, South Dakota
October 17, 2019

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,972,905	\$ 23,602	\$ 2,996,507
Investments	2,500,000	-	2,500,000
Taxes receivable	430,649	-	430,649
Inventories	-	3,813	3,813
Other assets	220,106	4,777	224,883
Net pension assets	3,093	87	3,180
Capital assets			
Land, improvements	94,410	-	94,410
Other capital assets, net depreciation	11,846,956	1,703	11,848,659
TOTAL ASSETS	18,068,119	33,982	18,102,101
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	1,073,109	29,887	1,102,996
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 1,073,109	\$ 29,887	\$ 1,102,996

The accompanying notes to the basic financial statements are an integral part of this statement.

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Accounts payable	\$ 44,899	\$ 111	\$ 45,010
Other current liabilities	349,337	5,185	354,522
Noncurrent liabilities:			
Due in more than one year	97,940	-	97,940
TOTAL LIABILITIES	492,176	5,296	497,472
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred outflows	\$ 254,494	\$ 7,943	\$ 262,437
Taxes levied for future period	473,315	-	473,315
TOTAL DEFERRED INFLOWS OF RESOURCES	727,809	7,943	735,752
NET POSITION			
Net Investment in			
Capital Assets	11,941,366	1,703	11,943,069
Restricted for:			
Capital Outlay	16,731	-	16,731
Special Education	43,806	-	43,806
SDRS Pension Purposes	821,708	22,031	843,739
Unrestricted	5,097,632	26,896	5,124,528
TOTAL NET POSITION	\$ 17,921,243	\$ 50,630	\$ 17,971,873

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
Instruction	\$ 3,343,218	\$ -	\$ 221,711	\$ (3,121,507)	\$ -	\$ (3,121,507)
Support services	2,026,047	-	231,209	(1,794,838)	-	(1,794,838)
Cocurricular activities	211,973	23,013	-	(188,960)	-	(188,960)
Total governmental activities	5,581,238	23,013	452,920	(5,105,305)	-	(5,105,305)
Business-type activities						
Food services	297,496	39,728	121,269	-	(136,499)	(136,499)
Total business-type activities	297,496	39,728	121,269	-	(136,499)	(136,499)
Total primary government	\$ 5,878,734	\$ 62,741	\$ 574,189	\$ (5,105,305)	\$ (136,499)	\$ (5,241,804)
General Revenues						
Taxes						
Property taxes				929,237	-	929,237
Utility taxes				49,689	-	49,689
Revenue from state sources:						
State Aid				1,848,362	-	1,848,362
Revenue from federal sources				2,661,207	-	2,661,207
Unrestricted investments earnings				25,378	-	25,378
Other general revenues				35,104	-	35,104
Transfers				(130,000)	130,000	-
Total general revenues and transfers				5,418,977	130,000	2,887,770
Change in net position				313,672	(6,499)	307,173
Net position - beginning				17,607,571	57,129	17,664,700
Net position - ending				\$ 17,921,243	\$ 50,630	\$ 17,971,873

The accompanying notes to the basic financial statements are an integral part of this statement.

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund
ASSETS	
Cash and cash equivalents	\$ 2,834,699
Investments	2,500,000
Taxes-receivables	264,660
Taxes-delinquent	13,601
Due from state government	49,689
Due from federal government	97,284
Prepaid expenses	59,304
TOTAL ASSETS	\$ 5,819,237
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 12,997
Contracts payable	268,569
Payroll deductions and withholdings payable and employer matching payable	40,077
Total Liabilities	321,643
Deferred Inflows of Resources:	
Unavailable revenue - property taxes	13,601
Taxes levied for future period	303,776
Total Deferred Inflows of Resources	317,377
Fund Balances:	
Nonspendable	
Prepaid expense	59,304
Restricted	
Capital outlay	-
Special education	-
Unassigned	5,120,913
Total Fund Balance	5,180,217
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 5,819,237

The accompanying notes to the basic financial statements are an integral part of this statement.

Capital Outlay Fund	Special Education Fund	Total Governmental Funds
\$ 45,366	\$ 92,841	\$ 2,972,906
-	-	2,500,000
-	148,936	413,596
-	3,452	17,053
-	-	49,689
-	886	98,170
1,755	11,188	72,247
<u>\$ 47,121</u>	<u>\$ 257,303</u>	<u>\$ 6,123,661</u>
\$ 28,635	\$ 3,267	\$ 44,899
-	31,468	300,037
-	9,223	49,300
<u>28,635</u>	<u>43,958</u>	<u>394,236</u>
-	3,452	17,053
-	169,539	473,315
-	172,991	490,368
1,755	11,188	72,247
16,731	-	16,731
-	29,166	29,166
-	-	5,120,913
<u>16,731</u>	<u>40,354</u>	<u>5,239,057</u>
<u>\$ 47,121</u>	<u>\$ 257,303</u>	<u>\$ 6,123,661</u>

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total fund balances - governmental funds	\$	5,239,057
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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.	3,093
--	-------

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. The capitalized cost of the capital assets is \$14,974,723 and the accumulated depreciation is (\$3,033,357) for a net amount of \$11,941,366.	11,941,366
--	------------

Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	1,073,109
--	-----------

Long term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities consist of compensated absences.	(97,940)
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Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.	17,052
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Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	(254,494)
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Total net position - governmental funds	\$	<u>17,921,243</u>
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**TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
REVENUES:					
Revenue from local sources:					
Taxes:					
Ad valorem taxes	\$ 591,086	\$ -	\$ 321,134	-	\$ 912,220
Prior years' ad valorem taxes	5,401	-	2,980	-	8,381
Tax deed revenue	-	-	3,477	-	3,477
Utility taxes	49,689	-	-	-	49,689
Penalties and interest on taxes	2,155	-	1,137	-	3,292
Earnings on investments and deposits	25,378	-	-	-	25,378
Cocurricular activities:					
Admissions	22,703	-	-	-	22,703
Other	310	-	-	-	310
Other revenue from local sources:					
Rentals	19,193	-	-	-	19,193
Contributions and donations	-	4,000	-	-	4,000
Other	13,040	20,000	-	-	33,040
Total revenue from local sources	728,955	24,000	328,728	-	1,081,683
Revenue from intermediate sources					
County sources:					
County appointment	1,010	-	-	-	1,010
Total revenue from intermediate sources	1,010	-	-	-	1,010
Revenue from state sources:					
Grants-in-aid:					
Unrestricted grants-in-aid	1,848,362	-	-	-	1,848,362
Restricted grants-in-aid	2,427	-	39,969	-	42,396
Total revenue from state sources	1,850,789	-	39,969	-	1,890,758
Revenue from federal sources:					
Grants-in-aid:					
Unrestricted grants-in-aid	2,613,535	11,740	29,788	-	2,655,063
Restricted grants-in-aid thru state	338,548	15,029	15,942	-	369,519
Johnson O'Malley funds	6,144	-	-	-	6,144
Other federal revenue	41,005	-	-	-	41,005
Total revenue from federal sources	2,999,232	26,769	45,730	-	3,071,731
Total revenues	\$ 5,579,986	\$ 50,769	\$ 414,427	-	\$ 6,045,182

(Continued on next page)

**TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Expenditures:					
Instruction:					
Regular programs:					
Elementary	\$ 891,525	\$ 79,435	\$ -	\$ 2,993	\$ 973,953
Middle/junior high	488,348	23,604	-	-	511,952
High school	557,237	38,762	-	-	595,999
Preschool	51,855	-	-	-	51,855
Special programs:					
Programs for special education	-	-	453,561	-	453,561
Culturally different	47,480	-	-	-	47,480
Educationally deprived	332,793	-	-	-	332,793
Total instruction	2,369,238	141,801	453,561	2,993	2,967,593
Support services:					
Pupils:					
Guidance	139,574	-	-	-	139,574
Health	5,236	-	-	-	5,236
Student therapy services	-	-	4,656	-	4,656
Instructional staff:					
Improvement of instruction	13,079	-	-	-	13,079
Educational media	167,313	14,207	-	-	181,520
General administration:					
Board of education	73,994	-	-	-	73,994
Executive administration	195,807	-	-	-	195,807
School administration:					
Office of the principal	202,969	-	-	-	202,969
Other support services	74,177	-	-	-	74,177
Business:					
Fiscal services	112,333	3,800	-	-	116,133
Operation and maintenance of plant	414,367	151,716	-	-	566,083
Pupil transportation	245,035	-	-	-	245,035
Food services	14,179	-	-	-	14,179
Central:					
Staff	865	-	-	-	865

(Continued on next page)

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Special education:					
Administrative costs	\$ -	\$ -	\$ 24,967	\$ -	\$ 24,967
Transportation costs	-	-	12,721	-	12,721
Total support services	1,658,928	169,723	42,344	-	1,870,995
Cocurricular activities:					
Male activities	60,968	-	-	-	60,968
Female activities	34,496	1,017	-	-	35,513
Combined activities	71,590	29,086	-	-	100,676
Total cocurricular activities	167,054	30,103	-	-	197,157
Capital outlay	-	258,934	-	-	258,934
Total expenditures/expenses	4,195,220	600,561	495,905	2,993	5,294,679
Other financing sources (uses)					
Transfers in	-	555,000	85,000	-	640,000
Transfers out	(770,000)	-	-	-	(770,000)
Sale of surplus property	-	466	-	-	466
Total other financing sources (uses)	(770,000)	555,466	85,000	-	(129,534)
Net change in fund balances	614,766	5,674	3,522	(2,993)	620,969
Fund balance - beginning	4,565,451	12,812	36,832	2,993	4,618,088
Fund balance - ending	\$ 5,180,217	\$ 18,486	\$ 40,354	\$ -	\$ 5,239,057

The accompanying notes to the basic financial statements are an integral part of this statement.

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT
OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds	\$	620,969
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 expense exceeded capital outlay.		(60,534)
In the statement of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.		(22,605)
In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".		1,867
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.		999
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.		(227,024)
Change in net position of governmental activities	\$	<u>313,672</u>

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	Food Service Fund
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 23,602
Accounts receivable	2,731
Inventory of store purchased for resale	2,312
Inventory of donated foods	1,501
Net pension asset	87
Prepaid expenses	2,046
Total Current Assets	<u>32,279</u>
Noncurrent assets:	
Machinery and equipment	28,033
Accumulated depreciation	<u>(26,330)</u>
Total Noncurrent Assets	<u>1,703</u>
TOTAL ASSETS	<u>33,982</u>
DEFERRED OUTFLOW OF RESOURCES	
Deferred Outflow of resources	29,887
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>29,887</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	111
Benefits payable	22
Unearned revenue	5,163
Total current liabilities	<u>5,296</u>
DEFERRED INFLOW OF RESOURCES	
Deferred inflow of resources	7,943
TOTAL DEFERRED INFLOW OF RESOURCES	<u>7,943</u>
NET POSITION	
Net Investment in Capital Assets	1,703
SDRS Pension	22,031
Unrestricted	26,896
TOTAL NET POSITION	<u><u>\$ 50,630</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	<u>Food Service Fund</u>
OPERATING REVENUES	
Sales	
To pupils	\$ 26,140
To adults	10,994
Other charges for goods and services	2,594
Total operating revenues	<u>39,728</u>
OPERATING EXPENSES	
Salaries	90,080
Employee benefits	52,866
Purchased services	3,449
Supplies	5,507
Cost of sales - purchased food	126,168
Cost of sales - donated food	18,180
Depreciation	1,246
Total operating expenses	<u>297,496</u>
Operating loss	<u>(257,768)</u>
NONOPERATING REVENUES (EXPENSES)	
State sources	
State grants	926
Federal sources	
Cash reimbursements	105,140
Donated food	15,203
Total nonoperating revenues	<u>121,269</u>
Income before contributions, special items, extraordinary items and transfers	(136,499)
Transfers in	130,000
Change in net position	<u>(6,499)</u>
Total net position - July 1, 2018	<u>57,129</u>
Total net position - June 30, 2019	<u>\$ 50,630</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 46,955
Payments to employees for services	(136,672)
Payments to suppliers of goods and services	(133,419)
Net cash provided/(used) by operating activities	<u>(223,136)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from the general fund	130,000
Operating grants	106,066
Net cash provided by noncapital financing activities	<u>236,066</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,930
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,672</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 23,602</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income/(loss)	\$ (257,768)
ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	
Depreciation expense	1,246
Value of donated commodities used	18,180
Change in assets and liabilities	
Receivables	7,227
Inventories	(1,060)
Accounts and other payables	111
Net pension asset/liability	228
Pension related deferred inflows	1,663
Pension related deferred outflows	4,383
Prepaid expenses	1,912
Unearned revenue	<u>742</u>
Net cash provided/(used) by operating activities	<u><u>\$ (223,136)</u></u>
Noncash investing, capital and financing activities:	
Value of commodities received	<u><u>\$ 15,203</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	Private-Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 56,361	\$ 33,271
CDs	21,680	
TOTAL ASSETS	78,041	33,271
LIABILITIES		
Amount held for others	-	33,271
TOTAL LIABILITIES	\$ -	\$ 33,271
NET POSITION		
Held in trust for scholarships	78,041	
TOTAL NET POSITION	\$ 78,041	

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	Private-Purpose Trust Funds
ADDITIONS	
Contributions and donations	\$ 6,766
Earnings on investment and deposits	<u>705</u>
TOTAL ADDITIONS	<u>\$ 7,471</u>
DEDUCTIONS	
Trust deductions for scholarships	<u>8,100</u>
TOTAL DEDUCTIONS	<u>\$ 8,100</u>
CHANGES IN NET POSITION	(629)
NET POSITION BEGINNING	<u>\$ 78,670</u>
NET POSITION ENDING	<u>\$ 78,041</u>

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(See Independent Auditors' Report)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of the Timber Lake School District No. 20-3 (School District), 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; those 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.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

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. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses and 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.

NOTES TO FINANCIAL STATEMENTS - Page 2
(See Independent Auditors' Report)

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 School District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and;
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five 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 School District financial reporting entity are described below within their respective fund types:

Governmental Funds

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the School District, excluding Capital Outlay Fund and Special Education Fund expenditures. 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 that are legally restricted to expenditures for specified purposes.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.

NOTES TO FINANCIAL STATEMENTS - Page 3
(See Independent Auditors' Report)

Proprietary Funds

Enterprise Funds - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit - even if that government is not expected to make any payments - is not solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt services), be recovered with fees and charges, rather than with taxes or similar revenues.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Fiduciary Funds

Fiduciary funds consist of the following sub-categories and are never considered to be a major funds:

Private-Purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains the following private-purpose trust funds:

The William Adney Scholarship Trust Fund and the Alf Hulm Scholarship Trust Fund are the only private-purpose trust funds. The purpose of these private-purpose trust funds is to provide scholarships.

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds to hold assets as an agent in a trustee capacity for various classes and clubs.

c. Measurement Focus and Basis of Accounting

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

NOTES TO FINANCIAL STATEMENTS - Page 4
(See Independent Auditors' Report)

Measurement Focus

Government-wide Financial Statements

In the Government-wide Statement of Net Position and Statement of Activities, both governmental and business-type 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 type funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and similar fiduciary funds.

Basis of Accounting

Government-wide Financial Statements

In the Government-wide Statement of Net Position and Statement of Activities, governmental and business-type 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).

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, 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 Timber Lake School District No. 20-3, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2019 are expected reimbursements for federal grants, county taxes, and utility taxes.

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

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 and fiduciary fund types 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.

NOTES TO FINANCIAL STATEMENTS - Page 5
(See Independent Auditors' Report)

d. Interfund Eliminations and Reclassifications

Government 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 and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
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 General Fund so that expenses are reported only in the function to which they relate.

e. Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

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

f. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

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

Government-Wide Statements

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

NOTES TO FINANCIAL STATEMENTS - Page 6
(See Independent Auditors' Report)

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with US GAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with US GAAP.

The total June 30, 2019 balance of capital assets for governmental activities are all valued at original costs. The total June 30, 2019 balance of capital assets for business-type activities are all valued at original cost.

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. Capitalization thresholds (the dollar values above which assets acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ -	N/A	N/A
Improvements, other than buildings	10,000	Straight-line	15 - 25 years
Buildings	50,000	Straight-line	75 - 100 years
Machinery and equipment	5,000	Straight-line	5 - 20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

g. 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 governmental-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of 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.

NOTES TO FINANCIAL STATEMENTS - Page 7
(See Independent Auditors' Report)

h. Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or 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.

i. 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.

j. Cash and Cash Equivalents

For the purpose of preparing the Statement of Cash Flows, the School District considers all highly liquid investments and deposits with a term to maturity of three months or less when purchased to be cash equivalents.

k. Equity Classifications

Government-wide Financial Statements

Equity is classified as Net Position and is displayed in three components:

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

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(See Independent Auditors' Report)

Fund Financial Statements

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

l. Application of Net Position

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

m. Fund Balance Classification Policies and Procedures

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

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

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

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

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

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

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

n. Pensions

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

NOTES TO FINANCIAL STATEMENTS - Page 10
(See Independent Auditors' Report)

NOTE 3 - RECEIVABLES AND PAYABLES

Receivables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

NOTE 4 - INVENTORY

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the government-wide financial statements, and in the enterprise fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

No material inventories were on hand as of June 30, 2019, in the governmental funds.

NOTE 5 - PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the School District's taxes and remits them to the School District. School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations.

Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore and not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

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NOTE 5 - PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the School District's taxes and remits them to the School District. School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations.

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NOTES TO FINANCIAL STATEMENTS - Page 11
(See Independent Auditors' Report)

NOTE 6 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for year ended June 30, 2019 is as follows:

	Balance 07/01/2018	Increases	Decreases	Balance 06/30/2019
Primary Government				
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 94,410	\$ -	\$ -	\$ 94,410
Total capital assets, not being depreciated	94,410	-	-	94,410
Capital assets, being depreciated				
Buildings	12,245,336	-	-	12,245,336
Improvements other than buildings	807,863	179,749	-	987,612
Machinery and equipment	1,627,190	79,186	(59,011)	1,647,365
Total capital assets, being depreciated	14,680,389	258,935	(59,011)	14,880,313
Less accumulated depreciation for				
Buildings	1,709,357	162,478	-	1,871,835
Improvements other than buildings	165,650	47,593	-	213,243
Machinery and equipment	875,287	109,398	(36,406)	948,279
Total accumulated depreciation	2,750,294	319,469	(36,406)	3,033,357
Total capital assets, being depreciated, net	11,930,095	(60,534)	(22,605)	11,846,956
Governmental activity capital assets, net	\$ 12,024,505	\$ (60,534)	\$ (22,605)	\$ 11,941,366

Depreciation expense was charged to functions as follows:

	6/30/2019
Governmental activities	
Instructional	\$ 219,161
Support Services	91,917
Cocurricular	8,391
Total depreciation expense - governmental activities	\$ 319,469

NOTES TO FINANCIAL STATEMENTS - Page 12
(See Independent Auditors' Report)

	Balance 07/01/2018	Increases	Decreases	Balance 06/30/2019
Business-type activities				
Capital assets, being depreciated				
Machinery and equipment	28,033	-	-	28,033
Total capital assets, being depreciated	28,033	-	-	28,033
Less accumulated depreciation for				
Machinery and equipment	25,083	1,246	-	26,329
Total accumulated depreciation	25,083	1,246	-	26,329
Business-type activities capital assets, net	<u>\$ 2,950</u>	<u>\$ (1,246)</u>	<u>\$ -</u>	<u>\$ 1,704</u>

Depreciation expense was charged to functions as follows:

	6/30/2019
Business-type activities	
Food Service	<u>\$ 1,246</u>

NOTE 7 - LONG-TERM DEBT

A summary of the changes in long-term liabilities for the year ended June 30, 2019 is as follows:

	Beginning Balance 07/01/2018	Additions	Deletions	Ending Balance 06/30/2019	Due Within One Year
Primary government					
Governmental activities					
Compensated absences	98,939	43,819	(44,818)	97,940	-
Total governmental activities	<u>98,939</u>	<u>43,819</u>	<u>(44,818)</u>	<u>97,940</u>	<u>-</u>

Debt payable at June 30, 2019, is comprised of the following:

Compensated Absences, payments to be made by the fund that the payroll expenditures are charged within.	<u>\$ 97,940</u>
Total long-term debt	<u>\$ 97,940</u>

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(See Independent Auditors' Report)

NOTE 8 - INDIVIDUAL FUND INTERFUND BALANCES AND INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2019 were as follows:

6/30/2019	Transfers In	Transfers Out	Total
General Fund	\$ -	\$ (770,000)	\$ (770,000)
Capital Outlay Fund	555,000	-	555,000
Special Education	85,000	-	85,000
Food Service Fund	130,000	-	130,000
Total	<u>\$ 770,000</u>	<u>\$ (770,000)</u>	<u>\$ -</u>

The purpose of the interfund transfers was to transfer federal monies from the General Fund to the Capital Outlay Fund, Special Education Fund and Food Service Fund.

NOTE 9 - RESTRICTED NET POSITION

<u>Fund</u>	<u>Restricted By</u>	<u>6/30/2019</u>
Special Education	Law	\$ 43,806
Capital Outlay	Law	16,731
SDRS Pension Purposes	Law	821,708
Total Restricted Net Position		<u>\$ 882,245</u>

These balances are restricted due to statutory requirements.

NOTE 10 - PENSION PLAN

Plan Information:

All employees working twenty or more hours per week participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 109, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

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Benefits Provided:

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

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

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

Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.

If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:

The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.

If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:

The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6% of salary; Class B Judiciary 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% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the years ended June 30, 2019, 2018, and 2017 was \$173,240, \$170,047, and \$162,267, respectively, equal to the required contributions each year.

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(See Independent Auditors' Report)

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

At June 30, 2018, SDRS is 100.02% 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 School District as of June 30, 2019 are as follows:

Proportionate share of pension liability	\$ 16,677,458
Less proportionate share of net pension restricted for pension benefits	<u>16,680,638</u>
Proportionate share of net pension liability (asset)	<u>\$ (3,180)</u>

At June 30 2019, the School District reported an asset of \$3,180 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018 and the total pension asset used to calculate the net pension asset was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the School District's proportion was .013632740%, which is an increase of .0032209% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School District recognized pension expense of \$233,298. At June 30, 2019 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 120,172	\$ -
Changes in assumption	807,212	-
Net difference between projected and actual earnings on pension plan investments	-	240,294
Changes in proportion and difference between District contributions and proportionate share of contributions	2,370	22,142
District contributions subsequent to the measurement date	<u>173,240</u>	<u>-</u>
Total	<u>\$ 1,102,994</u>	<u>\$ 262,436</u>

NOTES TO FINANCIAL STATEMENTS - Page 16
(See Independent Auditors' Report)

\$173,240 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30:	
2020	\$ 427,681
2021	316,164
2022	(48,284)
2023	<u>(28,243)</u>
TOTAL	<u>\$ 667,318</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.5% at entry to 3.0% after 25 years of service
Investment Rate of Return	6.5% net of pension plan investment expense

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

A detailed experience analysis covering the period from June 30, 2011 to June 30, 2016, was conducted and appropriate modifications in the economic and demographic assumptions were made effective with the June 30, 2017 actuarial valuation.

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.

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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, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100.0%	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.5%. 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 liability (asset).

Sensitivity of asset to changes in the discount rate:

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.5%, as well as what the School's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
School District's Proportionate share of the net pension liability (asset)	\$ 2,401,392	\$ (3,180)	\$ (1,959,168)

Pension Plan Fiduciary Net Position:

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

NOTES TO FINANCIAL STATEMENTS - Page 18
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NOTE 11 - JOINT VENTURES

The School District participates in the Northwest Area Schools Multi-District and Northwest Area Schools Education Cooperative, a cooperative service unit (co-op) formed for the purpose of providing education services in the area of special education, adult education, service training and other educational services to the member school districts.

The members of the Northwest Area Schools Multi-District and their relative percentage participation are as follows:

Harding County School District No. 31-1	14.76%
Faith School District No. 46-2	14.76%
Dupree School District No. 64-2	14.76%
Timber Lake School District No. 15-2	14.76%
McLaughlin School District No. 15-1	14.76%
Mcintosh School District No. 15-1	14.76%
Smee School District No. 15-3	11.44%

Northwest Area Schools Multi-District's governing board is comprised of one representative from each member school district, who is a school board member. The board is responsible for adopting the joint venture's budget and setting service fees at a level adequate to fund the adopted budget. The School District retains equity in the net position and has a responsibility to fund deficits of the joint venture in proportion to the relative participation described above. Separate financial statements for this joint venture are available from Northwest Area Schools Multi-District.

The members of the Northwest Area Schools Educational Cooperative and their relative percentage participation are as follows:

Harding County School District No. 31-1	16.67%
Faith School District No. 46-2	16.67%
Dupree School District No. 64-2	16.67%
Timber Lake School District No. 15-2	16.67%
Bison School District No. 52-1	16.67%
Mcintosh School District No. 15-1	16.67%
McLaughlin School District No. 15-1	0.00%

Northwest Area Schools Educational Cooperative's governing board is comprised of one representative from each member school district, who is a school board member. The board is responsible for adopting the joint venture's budget and setting service fees at a level adequate to fund the adopted budget. The School District retains equity in the net position and has a responsibility to fund deficits of the joint venture in proportion to the relative participation described above. Separate financial statements for this joint venture are available from Northwest Area Schools Educational Cooperative.

The School District retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Northwest Area Schools Multi-District and Northwest Area Schools Educational Cooperative are combined for financial reporting purposes. At June 30, 2019, this joint venture had net position of \$2,516,833 (unaudited), and no long-term debt outstanding.

NOTE 12 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2019, the School District managed its risks as follows:

Employee Health Insurance

The School District 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. The District also reimburses employees for out of pocket expenses beyond the first \$100 to meet their deductible up to \$650 per individual up to three individuals.

The School District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage. The School District pays an annual premium to the pool to provide coverage for: package coverage for property, general liability, crim and automobile, umbrella liability, boiler and machinery, and school leader's errors and omissions.

The agreement with the ASBSD-PLF provides that the above coverages will be provided to various limits for the different types of coverage. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limits. The School District carries various deductibles for differing types of insurance coverage.

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

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(See Independent Auditors' Report)

Workman's Compensation

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage to obtain lower costs for the coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims.

The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

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

Unemployment Benefits

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

The School District has not assigned any amount of Fund Balance for the payment of future unemployment benefits.

During the fiscal year ended June 30, 2019, no unemployment benefits were paid. At June 30, 2019 there were no claims filed for unemployment benefits and no claims are anticipated in the next year.

NOTE 13 - LITIGATION

At June 30, 2019, the School District was not involved in any litigation.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through the date on which the financial statements were available to be issued. Management has determined there are none

REQUIRED SUPPLEMENTARY INFORMATION

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget	
	Original	Final			
REVENUES:					
1000	Revenue from Local Sources:				
1100	Taxes:				
1110	Ad Valorem Taxes	\$ 575,000	\$ 575,000	\$ 591,086	\$ 16,086
1120	Prior Years' Ad Valorem Taxes	2,000	2,000	5,401	3,401
1140	Utility Taxes	52,000	52,000	49,689	(2,311)
1190	Penalties and Interest on Taxes	-	-	2,155	2,155
1510	Interest	2,000	2,000	-	(2,000)
1700	Cocurricular Activities:				
1710	Admissions	15,000	15,000	22,703	7,703
1790	Other	1,500	1,500	310	(1,190)
1900	Other Revenue from Local Sources:				
1910	Rentals	25,200	25,200	19,193	(6,007)
1990	Other	12,000	12,000	13,040	1,040
2000	Revenue from Intermediate Sources:				
2100	County Sources:				
2110	County Apportionment	3,000	3,000	1,010	(1,990)
3000	Revenue from State Sources:				
3110	Unrestricted Grants-in-Aid	2,080,200	2,080,200	1,848,362	(231,838)
3120	Restricted Grains-in-Aid	1,400	1,400	2,427	1,027
4000	Revenue from Federal Sources:				
4199	Received Directly from Federal Government	316,232	316,232	344,692	28,460
4900	Through the State Other Federal Revenue	40,749	40,749	41,005	256
Total Revenue		\$ 3,126,281	\$ 3,126,281	\$ 2,941,073	\$ (185,208)
EXPENDITURES:					
1000	Instruction:				
1100	Regular Programs:				
1111	Elementary	\$ 916,502	\$ 916,502	\$ 891,525	\$ 24,977
1120	Middle/Junior High	504,300	504,300	488,348	15,952
1130	High School	581,620	581,620	557,237	24,383
1140	Preschool	52,090	52,090	51,855	235
1200	Special Programs:				
1250	Culturally different	51,749	51,749	47,480	4,269
1270	Educationally Deprived	369,550	369,550	332,793	36,757
2000	Support Services:				
2100	Pupils:				
2120	Guidance	145,160	145,160	139,574	5,586
2130	Health Services	7,800	7,800	5,236	2,564

(Continued on next page)

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
2200 Support Services-Instructional Staff:				
2210 Improvement of Instruction	17,500	17,500	13,079	4,421
2220 Educational Media	169,345	169,345	167,313	2,032
2300 Support Services-General Administration:				
2310 Board of Education	90,273	90,273	73,994	16,279
2321 Executive Administration	208,960	208,960	195,807	13,153
2400 Support Services - School Administration:				
2410 Office of the Principal	217,460	217,460	202,969	14,491
2490 Other	75,735	75,735	74,177	1,558
2500 Support Services-Business				
2520 Fiscal Services	120,300	120,300	112,333	7,967
2540 Operation & Maintenance of Plant	420,100	420,100	414,367	5,733
2550 Pupil Transportation	249,000	249,000	245,035	3,965
2560 Food Service	14,000	14,000	14,179	(179)
2600 Support Services-Central				
2640 Staff	1,300	1,300	865	435
6000 Cocurricular Activities				
6100 Male Activities	42,407	42,407	60,968	(18,561)
6200 Female Activities	42,407	42,407	34,496	7,911
6900 Combined Activities	75,715	75,715	71,590	4,125
Total Expenditures	4,373,273	4,373,273	4,195,220	178,053
Excess Revenue Over/Under Expenditures	\$ (1,246,992)	\$ (1,246,992)	\$ (1,254,147)	\$ (7,155)
Other Financing Sources				
5110 Transfer In	1,014,652	1,014,652	1,295,000	280,348
Total Other Financing Sources	1,014,652	1,014,652	1,295,000	280,348
Net Change in Fund Balances	(232,340)	(232,340)	40,853	273,193
Fund Balance - Beginning	290,329	290,329	290,329	-
Fund Balance - Ending	\$ 57,989	\$ 57,989	\$ 331,182	\$ 273,193

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2019

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget	
	Original	Final			
REVENUES:					
1000	Revenue from Local Sources:				
1100	Taxes:				
1110	Ad Valorem Taxes	\$ 290,000	\$ 290,000	\$ 321,134	\$ 31,134
1120	Prior Years' Ad Valorem Taxes	2,000	2,000	2,980	980
1130	Tax Deed Revenue			3,477	3,477
1190	Penalties and Interest on Taxes	-	-	1,137	1,137
1510	Interest	1,000	1,000	-	(1,000)
1900	Other Revenue from Local Sources:				
1970	Charges for Services	500	500	-	(500)
3000	Revenue from State Sources:				
3120	Restricted Grants	68,918	68,918	39,969	(28,949)
4000	Revenue from Federal Sources:				
4199	Received Directly from Federal Government Through the State	38,000	38,000	45,730	7,730
	Total Revenue	\$ 400,418	\$ 400,418	\$ 414,427	\$ 14,009
EXPENDITURES:					
1200	Special Programs:				
1220	Programs for Special Education	\$ 491,700	\$ 491,700	\$ 453,561	\$ 38,139
2000	Support Services:				
2100	Pupils:				
2140	Psychological Services	2,500	2,500	-	2,500
2150	Speech	10,000	10,000	-	10,000
2170	Student Therapy Services	16,000	16,000	4,656	11,344
2700	Special Education:				
2710	Administrative Costs	37,000	37,000	24,967	12,033
2730	Specific Learning Disabled	18,500	18,500	12,721	5,779
	Total Expenditures	575,700	575,700	495,905	79,795
	Excess Revenue Over/Under Expenditures	(175,282)	(175,282)	(81,478)	93,804
	Other Financing Sources				
5110	Transfer In	175,282	175,282	85,000	(90,282)
	Net Change in Fund Balances	-	-	3,522	3,522
	Fund Balance - Beginning	36,832	36,832	36,832	-
	Fund Balance - Ending	\$ 36,832	\$ 36,832	\$ 40,354	\$ 3,522

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

Schedules of Budgetary Comparisons for the General Fund and for each major Special Revenue Fund with a legally required budget.

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

The School District followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in May of each year the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total School District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
11. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - Page 2
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

1. The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services - Business/Pupils Transportation function of the government, along with all other current Pupil Transportation related expenditures.
2. The financial statements prepared in conformity with USGAAP do not recognize the Impact Aid Fund as a special revenue fund. The fund has specific revenue, but does not require it to be spent on a special purpose. According to SDCL 13-16-31, the School District should maintain a separate Impact Aid Fund. So to comply with USGAAP and state law, the Impact Aid Fund is blended with the General Fund in the Basic Financial Statements, however, the Budgetary RSI Schedule shows the General Fund separate from the Impact Aid Fund.

**TIMBER LAKE SCHOOL DISTRICT NO. 20-3
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM**

	2019	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.1363274%	0.1331065%	0.1307569%	0.1323230%	0.1309451%
District's proportionate share of net pension liability (asset)	\$ (3,180)	\$ (12,080)	\$ 441,684	\$ (561,218)	\$ (943,406)
District's covered-employee payroll	\$ 2,834,122	\$ 2,704,453	\$ 2,486,344	\$ 2,415,827	\$ 2,289,871
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.11%	0.45%	17.76%	23.23%	41.20%
Plan fiduciary net position as a percentage of the total pension liability	100.02%	100.1%	96.9%	104.1%	107.3%

*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.

**TIMBER LAKE SCHOOL DISTRICT NO. 20-3
SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS
SOUTH DAKOTA RETIREMENT SYSTEM**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 173,240	\$ 170,047	\$ 162,267	\$ 149,181	\$ 144,950	\$ 137,392	\$ 136,944	\$ 136,117	\$ 134,232	\$ 123,107
Contributions in relation to the contractually required contribution	\$ 173,240	\$ 170,047	\$ 162,267	\$ 149,181	\$ 144,950	\$ 137,392	\$ 136,944	\$ 136,117	\$ 134,232	\$ 123,107
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 2,887,332	\$ 2,834,122	\$ 2,704,444	\$ 2,486,334	\$ 2,415,821	\$ 2,289,868	\$ 2,282,404	\$ 2,268,610	\$ 2,237,196	\$ 2,051,787
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET) AND SCHEDULE OF CONTRIBUTIONS

Changes of benefit terms:

No changes were made.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2017 and exists again this year as of June 30, 2018. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.89% as of June 30, 2017 and is 2.03% as of June 30, 2018.

The changes in actuarial assumptions increased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 1.89% COLA, reflecting the current and assumed future restricted maximum COLA of 2.03%.

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures 2019
US Department of Agriculture Pass-Through Programs From:			
S.D Department of Education:			
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	NA	\$15,203
Cash Assistance			
School Breakfast Program (Note 3)	10.553	NA	\$26,928
National School Lunch Program (Note 3)	10.555	NSLP-17-289	\$78,212
Total for Child Nutrition Cluster			\$120,343
US Department of Agriculture Pass-Through Programs From:			
S.D Department of Education:			
Fresh Fruit and Vegetable Program	10.582	NA	\$11,820
Subtotal for US Department of Agriculture - Pass-Through Programs			\$11,820
Total of US Department of Agriculture			\$132,163
US Department of the Interior			
US Departmen of the Interior - Direct Programs			
Indian Education - Assistance to schools (Note 3)	15.130	NA	\$6,144
Total of US Department of Interior			\$6,144
National Science Foundation - Pass-Through Programs From:			
S.D Department of Tourism:			
Promotion of the Arts - Partnership Agreements	45.025	NA	\$1,093
Total of National Science Foundation			\$1,093
Special Education Cluster:			
US Department of Education - Pass-Through Programs From:			
SD Department of Education:			
Special Education - Grants to States (IDEA, Part B)	84.027	NA	\$14,705
Special Education - Preschool Grants (IDEA, Preschool)	84.173	NA	\$1,237
Total for Special Education Cluster:			\$15,942
US Department of Education - Direct Programs:			
Impact Aid (Title VIII of ESEA) (Note 4)	84.041	NA	\$2,655,063
Indian Education - Grants to Local Educational Agencies	84.060	NA	41,005
Subtotal for US Department of Education - Direct Programs			\$2,696,068

TIMBER LAKE SCHOOL DISTRICT NO. 20-3
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

US Department of Education - Pass-Through Programs from:

S.D Department of Education:

Title I Grants to Local Educational Agencies	84.010	T1ba-17-128	\$254,785
Rural Education	84.358	N/A	\$6,298
Improving Teacher Quality State Grants	84.367	17-T2A-128	\$37,042
Student Support and Academic Enrichment Grant	84.424	N/A	\$25,530

Subtotal for US Department of Education \$338,684

Total US Department of Education: \$3,050,694

Grand Total \$3,190,094

NOTE 1: BASIS OF PRESENTATION: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to the reimbursement. The School District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3: FEDERAL REIMBURSEMENT: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

NOTE 4: This represents a major federal financial assistance program.