

***MUNICIPALITY OF TIMBER LAKE***  
***INDEPENDENT AUDITOR'S REPORT***  
***AND***  
***FINANCIAL STATEMENTS***  
***FOR THE YEAR ENDED***  
***DECEMBER 31, 2018***

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b><i>INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....</i></b>	<b>1-2</b>
<b><i>SCHEDULE OF AUDIT FINDINGS .....</i></b>	<b>3-4</b>
<b><i>INDEPENDENT AUDITOR’S REPORT .....</i></b>	<b>5-6</b>
<b><i>FINANCIAL STATEMENTS</i></b>	
<b><i>GOVERNMENT-WIDE FINANCIAL STATEMENTS</i></b>	
Statement of Net Position – Modified Cash Basis.....	7
Statement of Activities – Modified Cash Basis.....	8
<b><i>FUND FINANCIAL STATEMENTS</i></b>	
<b><i>GOVERNMENTAL FUNDS</i></b>	
Balance Sheet – Modified Cash Basis .....	9
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis.....	10-11
<b><i>PROPRIETARY FUNDS</i></b>	
Statement of Net Position – Modified Cash Basis.....	12
Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis.....	13
Statement of Cash Flows – Modified Cash Basis .....	14
<b><i>NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS .....</i></b>	<b>15-28</b>
<b><i>SUPPLEMENTAL INFORMATION .....</i></b>	<b>29</b>
Budgetary Comparison Schedules – Modified Cash Basis – General Fund.....	30-31
Notes to the Supplemental Information – Budgetary Comparison Schedule.....	32
Schedule of the Municipal Contributions.....	33
Schedule of the Proportionate Share of the Net Pension Liability (Asset) .....	34-35
Municipal Officials .....	36



e l o c p a ■ c o m

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

**To the Board of Trustees  
Municipality of Timber Lake, South Dakota**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities and each major fund of the Municipality of Timber Lake, South Dakota (municipality) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated October 7, 2019.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings that we consider to be significant deficiencies; see findings 2018-01 and 2018-02.

Mitchell ■ 605.996.7717  
Sioux Falls ■ 605.271.1302  
Chamberlain ■ 605.234.6055  
Huron ■ 605.352.8573  
Miller ■ 605.853.2130

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Municipality'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 or other matters that are required to be reported under *Government Auditing Standards*.

*Municipality of Timber Lake, SD's Response to Findings*

Municipality of Timber Lake, SD's response to findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality of Timber Lake, SD's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*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 Municipality'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.

A handwritten signature in cursive script that reads "CIO of LLC".

Mitchell, South Dakota  
October 7, 2019

**MUNICIPALITY OF TIMBER LAKE, SD**  
**SCHEDULE OF AUDIT FINDINGS**  
**DECEMBER 31, 2018**

**Schedule of Audit Findings**

**Finding No. 2018-01 – Lack of segregation of duties (internal control)**

***Criteria:*** A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

***Condition:*** The Municipality has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, payroll, and review of manual journal entries functions due to a lack of segregation of duties.

***Cause:*** The finance officer processes all revenue transactions from beginning to end as well as receives money, issues receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

***Effect:*** There is an increase likelihood that fraud or errors could occur and not be detected in a timely manner by employees or others in the ordinary course of performing their duties.

***Recommendation:*** Municipality officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

***Views of Responsible Officials:*** The Municipality agrees with this finding and is willing to accept the risk. Due to the small size of the Municipality it is not cost beneficial to employ additional personnel to adequately segregate the duties above. The Municipality will continue to regularly provide compensating controls whenever and wherever possible and considers the external audit a major component of internal control processes.

**Finding No. 2018-02 – Internal control over financial reporting**

***Criteria:*** The Municipality's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

***Condition:*** The Municipality requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2018. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the Municipality's existing internal controls and, therefore, could result in a misstatement of the Municipality's financial statements.

***Cause:*** The Municipality does not have adequately trained staff to prepare financial statements and the related footnotes and could cause the need for auditors to, at times, propose material journal entries.

***Effect:*** This condition may affect the Municipality's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**SCHEDULE OF AUDIT FINDINGS**  
**DECEMBER 31, 2018**

**Finding No. 2018-02 – Internal control over financial reporting *(continued)***

***Recommendation:*** This circumstance is not unusual in an organization of this size. 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 or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

***Client Response:*** The Municipality agrees with this finding and is willing to accept the risk. The Municipality is aware that current staffing will result in an on-going audit finding in this internal control matter. The Municipality has determined that it is not cost beneficial to employ an accounting professional level finance officer. The Municipality will continue to regularly provide compensating controls whenever and wherever possible and practical.



e l o c p a ■ c o m

## *INDEPENDENT AUDITOR'S REPORT*

To the Board of Trustees  
Municipality of Timber Lake, South Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Timber Lake, South Dakota, (municipality) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Municipality'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 Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Mitchell ■ 605.996.7717  
Sioux Falls ■ 605.271.1302  
Chamberlain ■ 605.234.6055  
Huron ■ 605.352.8573  
Miller ■ 605.853.2130

*Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the Municipality of Timber Lake as of December 31, 2018, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

*Basis of Accounting*

We draw attention to Note 1.c. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Other Matters*

*Supplemental Information*

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The budgetary comparison schedule, notes to the budgetary comparison schedule, the schedule of Municipal contributions, and the schedule of the Municipality's proportionate share of net pension liability listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 7, 2019 on our consideration of the Municipality'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 Municipality's internal control over financial reporting and compliance.



Mitchell, South Dakota  
October 7, 2019

**MUNICIPALITY OF TIMBER LAKE, SD**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2018**

	<i>Primary Government</i>		
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 171,242	\$ 152,344	\$ 323,586
Investments	28,000	--	28,000
<b>Restricted Assets:</b>			
Cash and cash equivalents	3,000	--	3,000
<b>TOTAL ASSETS</b>	<b>\$ 202,242</b>	<b>\$ 152,344</b>	<b>\$ 354,586</b>
 <b>NET POSITION:</b>			
<b>Restricted for:</b>			
Capital outlay	\$ 3,000	\$ --	\$ 3,000
Unrestricted	199,242	152,344	351,586
<b>TOTAL NET POSITION</b>	<b>\$ 202,242</b>	<b>\$ 152,344</b>	<b>\$ 354,586</b>

*The accompanying Notes to Financial Statements  
are an integral part of this statement.*

**MUNICIPALITY OF TIMBER LAKE, SD**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<i>Primary Government:</i>						
<i>Governmental Activities:</i>						
General government	\$ 220,373	\$ 36,638	\$ --	\$ (183,735)	\$ --	\$ (183,735)
Public safety	65,357	2,695	--	(62,662)	--	(62,662)
Public works	235,193	57,723	38,129	(139,341)	--	(139,341)
Health and welfare	4,289	--	2,144	(2,145)	--	(2,145)
Culture and recreation	7,417	306	--	(7,111)	--	(7,111)
Miscellaneous	2,990	6,797	--	3,807	--	3,807
<i>Total Governmental Activities</i>	<u>535,619</u>	<u>104,159</u>	<u>40,273</u>	<u>(391,187)</u>	<u>--</u>	<u>(391,187)</u>
<i>Business-type Activities:</i>						
Water	123,029	93,832	--	--	(29,197)	(29,197)
Sewer	68,240	67,462	--	--	(778)	(778)
Broadband	152,885	140,682	--	--	(12,203)	(12,203)
<i>Total Business-Type Activities</i>	<u>344,154</u>	<u>301,976</u>	<u>--</u>	<u>--</u>	<u>(42,178)</u>	<u>(42,178)</u>
<i>Total Primary Government</i>	<u>\$ 879,773</u>	<u>\$ 406,135</u>	<u>\$ 40,273</u>	<u>(391,187)</u>	<u>(42,178)</u>	<u>(433,365)</u>
<i>General revenues:</i>						
<i>Taxes:</i>						
Property tax				86,334	--	86,334
Sales tax				179,562	--	179,562
Other tax				384	--	384
Unrestricted investment earnings				739	3,086	3,825
Sale of municipal property				18,865	--	18,865
Compensation for damage to capital assets				1,361	--	1,361
<i>Total General Revenues and Transfers</i>				<u>287,245</u>	<u>3,086</u>	<u>290,331</u>
<i>Change in Net Position</i>				<u>(103,942)</u>	<u>(39,092)</u>	<u>(143,034)</u>
<i>Net Position-Beginning of Year</i>				<u>306,184</u>	<u>191,436</u>	<u>497,620</u>
<i>Net Position-Ending of Year</i>				<u>\$ 202,242</u>	<u>\$ 152,344</u>	<u>\$ 354,586</u>

*The accompanying Notes to Financial Statements are an integral part of this statement.*

**MUNICIPALITY OF TIMBER LAKE, SD  
BALANCE SHEET – MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 171,242
Investments	28,000
Restricted cash and cash equivalents	<u>3,000</u>
<i>Total Assets</i>	<u>\$ 202,242</u>
 <b>FUND BALANCES</b>	
Assigned to:	
Subsequent year's budget	\$ 52,884
Restricted	3,000
Unassigned	<u>146,358</u>
<i>Total Fund Balances</i>	<u>\$ 202,242</u>

*The accompanying Notes to Financial Statements  
are an integral part of this statement.*

**MUNICIPALITY OF TIMBER LAKE, SD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<i>General Fund</i>
<i>Revenues:</i>	
<b>Taxes</b>	
General property taxes	\$ 86,334
General sales and use taxes	179,562
Amusement taxes	144
Penalties and interest on delinquent taxes	240
<b>Intergovernmental Revenues:</b>	
State grants	2,144
State shared revenue	
Bank franchise tax	256
Motor vehicle commercial prorate	3,005
Liquor tax reversion	2,786
Motor vehicle licenses	11,147
Local government highway and bridge fund	20,564
County road and bridge tax	371
<b>Charges for goods and services</b>	
Sanitation	57,723
Culture and recreation	306
<b>Fines and forfeits</b>	2,695
<b>Miscellaneous</b>	
Investment earnings	739
Rentals	16,185
Liquor operating agreement income	20,453
Other	6,797
<b>Total Revenues</b>	<b>\$ 411,451</b>

*The accompanying Notes to Financial Statements  
are an integral part of this statement.*

**MUNICIPALITY OF TIMBER LAKE, SD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(CONTINUED)**

<i>Expenditures:</i>	
General government:	
Legislative	\$ 20,422
Executive	2,323
Elections	775
Financial administration	76,924
Other	119,929
Public safety:	
Police	60,000
Fire	5,357
Public works:	
Highways and streets	188,145
Sanitation	43,380
Airport	3,668
Health and welfare:	
Health	4,289
Culture and recreation:	
Recreation	546
Parks	2,696
Libraries	4,175
Miscellaneous:	
Other	2,990
	<u>535,619</u>
<i>Total Expenditures</i>	
	<u>(124,168)</u>
<i>Excess of Revenues (Under) Expenditures</i>	
<i>Other Financing Sources:</i>	
Sale of Municipal Property	18,865
Compensation for loss or damage to capital assets	1,361
	<u>20,226</u>
<i>Total Other Financing Sources</i>	
	<u>(103,942)</u>
<i>Net Change in Fund Balance</i>	
	<u>306,184</u>
<i>Fund Balance - Beginning of Year</i>	
	<u>\$ 202,242</u>
<i>Fund Balance - End of Year</i>	

*The accompanying Notes to Financial Statements  
are an integral part of this statement.*

**MUNICIPALITY OF TIMBER LAKE, SD**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2018**

	<i>Enterprise Funds</i>			<i>Totals</i>
	<i>Water Fund</i>	<i>Sewer Fund</i>	<i>Broadband Fund</i>	
<b>ASSETS</b>				
<i>Current Assets:</i>				
Cash and cash equivalents	\$ 81,032	\$ 45,169	\$ 26,143	\$ 152,344
<b>Total Assets</b>	<u>\$ 81,032</u>	<u>\$ 45,169</u>	<u>\$ 26,143</u>	<u>\$ 152,344</u>
<b>NET POSITION</b>				
Unrestricted	\$ 81,032	\$ 45,169	\$ 26,143	\$ 152,344
<b>TOTAL NET POSITION</b>	<u>\$ 81,032</u>	<u>\$ 45,169</u>	<u>\$ 26,143</u>	<u>\$ 152,344</u>

*The accompanying Notes to Financial Statements  
are an integral part of this statement.*

**MUNICIPALITY OF TIMBER LAKE, SD**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<i>Enterprise Funds</i>			<i>Totals</i>
	<i>Water Fund</i>	<i>Sewer Fund</i>	<i>Broadband Fund</i>	
<i>Operating Revenues:</i>				
Charges for goods and services	\$ 93,832	\$ 67,462	\$ 140,682	\$ 301,976
<i>Total Operating Revenues</i>	<u>93,832</u>	<u>67,462</u>	<u>140,682</u>	<u>301,976</u>
<i>Operating Expenses:</i>				
Personal services	25,401	24,842	61,669	111,912
Other current expense	97,628	43,398	19,944	160,970
Materials	--	--	71,272	71,272
<i>Total Operating Expenses</i>	<u>123,029</u>	<u>68,240</u>	<u>152,885</u>	<u>344,154</u>
<i>Operating Income (Loss)</i>	<u>(29,197)</u>	<u>(778)</u>	<u>(12,203)</u>	<u>(42,178)</u>
<i>Nonoperating Revenues:</i>				
Other income	--	--	3,086	3,086
<i>Total Nonoperating Revenues</i>	<u>--</u>	<u>--</u>	<u>3,086</u>	<u>3,086</u>
<i>Change in Net Position</i>	(29,197)	(778)	(9,117)	(39,092)
<i>Net Position - Beginning of Year</i>	<u>110,229</u>	<u>45,947</u>	<u>35,260</u>	<u>191,436</u>
<i>Net Position - Ending of Year</i>	<u>\$ 81,032</u>	<u>\$ 45,169</u>	<u>\$ 26,143</u>	<u>\$ 152,344</u>

*The accompanying Notes to Financial Statements  
are an integral part of this statement.*

**MUNICIPALITY OF TIMBER LAKE, SD**  
**STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<i>Enterprise Funds</i>			<i>Totals</i>
	<i>Water Fund</i>	<i>Sewer Fund</i>	<i>Broadband Fund</i>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipt from customers	\$ 93,832	\$ 67,462	\$ 140,682	\$ 301,976
Payments to suppliers	(97,628)	(43,398)	(91,216)	(232,242)
Payments to employees	(25,401)	(24,842)	(61,669)	(111,912)
Other income	--	--	3,086	3,086
<i>Net Cash (Used) by Operating Activities</i>	<u>(29,197)</u>	<u>(778)</u>	<u>(9,117)</u>	<u>(39,092)</u>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	(29,197)	(778)	(9,117)	(39,092)
<i>Cash and Cash Equivalents - Beginning of Year</i>	<u>110,229</u>	<u>45,947</u>	<u>35,260</u>	<u>191,436</u>
<i>Cash and Cash Equivalents - Ending of Year</i>	<u>\$ 81,032</u>	<u>\$ 45,169</u>	<u>\$ 26,143</u>	<u>\$ 152,344</u>
 <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
<i>Operating (Loss)</i>	<u>\$ (29,197)</u>	<u>\$ (778)</u>	<u>\$ (12,203)</u>	<u>\$ (42,178)</u>
<i>Net Cash (Used) by Operating Activities</i>	<u>\$ (29,197)</u>	<u>\$ (778)</u>	<u>\$ (12,203)</u>	<u>\$ (42,178)</u>

*The accompanying Notes to Financial Statements  
are an integral part of this statement.*

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

As discussed further in Note 1. c., these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

**a. Financial Reporting Entity:**

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Municipality is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality (primary government). The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

At this time, Timber Lake has no component units which are separate legal entities and for which the Municipality is financially accountable.

**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 Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** *(continued)*

b. **Basis of Presentation:** *(continued)*

**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 two major categories: governmental and proprietary. 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 Municipality or it meets the following criteria:

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

The funds of the Municipality's financial reporting entity are described below:

**Governmental Funds:**

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

**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. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. 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 payable 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.)

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)***

b. ***Basis of Presentation: (continued)***

Fund Financial Statements: (continued)

Proprietary Funds: (continued)

**Enterprise Funds** – (continued)

- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Sewer Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

Broadband Fund – Financed primarily by user charges, this fund accounts for the cable television and internet services and related facilities. (SDCL 9-35-23). This is a major fund.

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.

The Municipality’s basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned, and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

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 within the limitations of the modified cash basis of accounting as defined below.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)***

c. **Measurement Focus and Basis of Accounting: (continued)**

**Measurement Focus: (continued)**

**Fund Financial Statements:**

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used, applied within the limitations of the modified cash basis of accounting.

**Basis of Accounting:**

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed, and assets and liabilities are recognized to the extent that cash has been received or disbursed. An acceptable modification to the cash basis of accounting implemented by the Municipality in these financial statements is:

Recording long-term investments (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. **Deposits and Investments:**

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit with a term to maturity at date of acquisition of three months or less.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)***

d. **Deposits and Investments:** *(continued)*

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months. Under the modified cash basis of accounting, investments are carried at cost.

e. **Capital Assets:**

Under the modified cash basis of accounting, capital assets are recorded when they result from cash transactions. The accounting treatment for property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary funds and whether they are reported in the government-wide or fund financial statements.

**Government-wide Financial Statements:**

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. Under the modified cash basis of accounting, capital assets arising from cash transactions reported in the government-wide financial statements are accounted for as assets in the Statement of Net position. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary to match the cost with the program that benefits from the use of the capital assets.

As discussed in Note 1.c. above the government-wide Statement of Net Position, and the Statement of Net Activities and the fund financial statements, governmental, and business-type are presented using the modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate, so any capital assets owned by the Municipality and the related depreciation are not reported on the financial statements of the Municipality.

f. **Program Revenues:**

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry. 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.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)***

g. **Proprietary Funds Revenue and Expense Classifications:**

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

h. **Cash and Cash Equivalents:**

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

i. **Equity Classifications:**

Government-wide Statements:

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

1. Restricted Net Position – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net position – All other net position that does not meet the definition of Restricted Net Position.

Fund Financial Statements:

Governmental fund equity is classified as fund balance and may distinguish between "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. **Application of Net Position:**

It is the Municipality'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.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)***

k. ***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 Municipality classifies governmental fund balances as follows:

- **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 governing body.
- **Unassigned** – included 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 Municipality does not have a formal minimum fund balance policy.

2. ***DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:***

The Municipality follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

**Deposits** – The Municipality’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

As of December 31, 2018, the Municipality did not have any investments. The investments reported in the financial statements consist only of certificates of deposits.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)**

**Credit Risk** – State law limits eligible investments for the Municipality, as discussed above. The Municipality has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** – The Municipality places no limit on the amount that may be invested in any one issuer.

**Interest Rate Risk** – The Municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Assignment of Investment Income** – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality’s policy is to credit all income from deposits and investments to the fund making the investment.

**3. PROPERTY TAXES:**

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The Municipality is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the Municipality.

**4. PENSION PLAN:**

**Plan Information:**

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

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**Benefits Provided:**

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

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

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

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

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

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 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 Judicial Members, 9% of salary; and Class B Public Safety Members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2018, 2017, and 2016 were \$10,292, \$9,103 and \$9,732, respectively, equal to the required contributions each year.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

5. **PENSION PLAN: (continued)**

**Pension (Asset):**

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 Municipality as of this measurement period ending June 30, 2018 and reported by the Municipality as of December 31, 2018 are as follows:

Proportionate share of pension liability	\$	4,556,986
Less proportionate share of net pension restricted for pension benefits		<u>4,557,854</u>
Proportionate share of net pension (asset)		<u><u>(868)</u></u>

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 upon a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the Municipality's proportion was 0.03725040% which is an increase of 0.0007892% from its proportion measured as of June 30, 2017.

**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 6.50% at entry to 3.00% after 25 years of service

Discount Rate 6.50% net of 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 females 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.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

5. **PENSION PLAN:** (continued)

**Actuarial Assumptions:** (continued)

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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 percentages of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.) The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see the discussion of the investment plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
<b>Total</b>	<u><u>100%</u></u>	

**Discount Rate:**

The discount rate used to measure the total pension (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the pension (asset).

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

5. **PENSION PLAN: (continued)**

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

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1%</u>	<u>Current</u>		<u>1%</u>
	<u>Decrease</u>	<u>Discount</u>		<u>Increase</u>
		<u>Rate</u>		
County's/Municipality's proportionate share of the net pension liability (asset)	\$ 656,162	\$ (868)	\$	(535,327)

**Pension Plan Fiduciary Net Position:**

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

6. **RISK MANAGEMENT:**

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2018, the Municipality managed its risks as follows:

**Employee Health Insurance:**

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

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**5. RISK MANAGEMENT: (continued)**

**Liability Insurance:**

The Municipality joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Municipality's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Municipality. The Municipality pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Municipality pays an annual premium to the pool to provide coverage for:

- Governmental General Liability**
- Law Enforcement Liability**
- Automobile Liability**
- Governmental Property**

The agreement with the SDPAA provides that the above coverages will be provided to limits of \$2,000,000 for general liability, \$2,000,000 for law enforcement liability, and \$1,500,000 for auto liability. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund.

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

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

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

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

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

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**5. RISK MANAGEMENT: (continued)**

As of December 31, 2018 the Municipality's balance available to be refunded per the SDPAA was \$24,990, which was an increase of \$11,433 from the previous year.

The Municipality carries a \$250-\$1,000 deductible for the property coverage, depending on the type of property.

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

**Workers' Compensation:**

The Municipality joined the South Dakota Municipal League Workers' Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality'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 workers' compensation claims. The Municipality pays an annual premium, to provide workers' compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

**Unemployment Benefits:**

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

***SUPPLEMENTAL INFORMATION***

**MUNICIPALITY OF TIMBER LAKE, SD**  
**BUDGETARY COMPARISON SCHEDULES – MODIFIED CASH BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<i>Variance with Final Budget Positive (Negative)</i>
	<u>Original</u>	<u>Final</u>		
<i>Revenues:</i>				
<i>Taxes:</i>				
General property tax	\$ 92,860	\$ 92,860	\$ 86,334	\$ (6,526)
General sales and use tax	209,316	209,316	179,562	(29,754)
Amusement tax	288	288	144	(144)
Penalties and interest on delinquent taxes	701	701	240	(461)
<b>Total Taxes</b>	<b>303,165</b>	<b>303,165</b>	<b>266,280</b>	<b>(36,885)</b>
<b>Total licenses and permits</b>	<b>30</b>	<b>30</b>	<b>--</b>	<b>(30)</b>
<i>Intergovernmental Revenue:</i>				
State Grants	--	--	2,144	2,144
<i>State Shared Revenue:</i>				
Bank franchise tax	2,465	2,465	256	(2,209)
Motor vehicle commercial prorated	2,129	2,129	3,005	876
Liquor tax	2,632	2,632	2,786	154
Motor vehicle licenses (5%)	10,785	10,785	11,147	362
Local government highway and bridge fund	22,147	22,147	20,564	(1,583)
<i>County Shared Revenue:</i>				
County road tax (25%)	817	817	371	(446)
<b>Total Intergovernmental Revenue</b>	<b>40,975</b>	<b>40,975</b>	<b>40,273</b>	<b>(702)</b>
<i>Charges for Goods and Services:</i>				
Sanitation	56,931	56,931	57,723	792
Health	4	4	--	(4)
Culture and recreation	300	300	306	6
<b>Total Charges for Goods and Services</b>	<b>57,235</b>	<b>57,235</b>	<b>58,029</b>	<b>794</b>
<i>Fines and Forfeits:</i>				
Court fines and costs	2,080	2,080	2,695	615
<b>Total Fines and Forfeits</b>	<b>2,080</b>	<b>2,080</b>	<b>2,695</b>	<b>615</b>
<i>Miscellaneous Revenue:</i>				
Investment earnings	207	207	739	532
Rentals	14,550	14,550	16,185	1,635
Liquor operating agreement	23,261	23,261	20,453	(2,808)
Other	--	--	6,797	6,797
<b>Total Miscellaneous Revenue</b>	<b>38,018</b>	<b>38,018</b>	<b>44,174</b>	<b>6,156</b>
<b>Total Revenues</b>	<b>441,503</b>	<b>441,503</b>	<b>411,451</b>	<b>(30,052)</b>

*See accompanying Note to Budgetary Comparison Schedules.*

**MUNICIPALITY OF TIMBER LAKE, SD**  
**BUDGETARY COMPARISON SCHEDULES – MODIFIED CASH BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(CONTINUED)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<i>Variance with Final Budget Positive (Negative)</i>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<i>Expenditures:</i>				
<i>General Government:</i>				
Legislative	30,824	30,824	20,422	10,402
Executive	2,048	2,048	2,323	(275)
Elections	1,348	1,348	775	573
Financial administration	91,125	91,125	76,924	14,201
Other	124,238	124,238	119,929	4,309
<i>Total General Government</i>	<u>249,583</u>	<u>249,583</u>	<u>220,373</u>	<u>29,210</u>
<i>Public Safety:</i>				
Police	60,000	60,000	60,000	--
Fire	7,900	7,900	5,357	2,543
<i>Total Public Safety</i>	<u>67,900</u>	<u>67,900</u>	<u>65,357</u>	<u>2,543</u>
<i>Public Works:</i>				
Highway and streets	221,818	221,818	188,145	33,673
Sanitation	36,800	36,800	43,380	(6,580)
Airport	41,050	41,050	3,668	37,382
<i>Total Public Works</i>	<u>299,668</u>	<u>299,668</u>	<u>235,193</u>	<u>64,475</u>
<i>Health and Welfare</i>	<u>3,000</u>	<u>3,000</u>	<u>4,289</u>	<u>(1,289)</u>
<i>Culture and Recreation:</i>				
Recreation	1,650	1,650	546	1,104
Parks	14,800	14,800	2,696	12,104
Libraries	6,310	6,310	4,175	2,135
<i>Total Culture and Recreation</i>	<u>22,760</u>	<u>22,760</u>	<u>7,417</u>	<u>15,343</u>
<i>Miscellaneous</i>	<u>2,550</u>	<u>2,550</u>	<u>2,990</u>	<u>(440)</u>
<i>Total Expenditures</i>	<u>645,461</u>	<u>645,461</u>	<u>535,619</u>	<u>109,842</u>
<i>Excess of Revenue Over (Under) Expenditures</i>	<u>(203,958)</u>	<u>(203,958)</u>	<u>(124,168)</u>	<u>79,790</u>
<i>Net Change in Fund Balances</i>	<u>(203,958)</u>	<u>(203,958)</u>	<u>(124,168)</u>	<u>79,790</u>
<i>Other Financing Sources (Uses)</i>	<u>--</u>	<u>--</u>	<u>20,226</u>	<u>20,226</u>
<i>Fund Balance Beginning</i>	<u>306,184</u>	<u>306,184</u>	<u>306,184</u>	<u>--</u>
<i>Fund Balance End</i>	<u>\$ 102,226</u>	<u>\$ 102,226</u>	<u>\$ 202,242</u>	<u>\$ 100,016</u>

*See accompanying Note to Budgetary Comparison Schedules.*

**MUNICIPALITY OF TIMBER LAKE, SD**  
**NOTES TO THE SUPPLEMENTAL INFORMATION – BUDGETARY**  
**COMPARISON SCHEDULE**  
**DECEMBER 31, 2018**

**Note 1: Budgets and Budgetary Accounting:**

The Municipality follows these procedures in establishing the budgetary data reflected in the schedule

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.

**Note 2: Other Comprehensive Basis of Accounting Modified Cash Basis/Budgetary Accounting Basis Differences:**

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting 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 fire truck 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 fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government along with all other current Fire Department related expenditures.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**SCHEDULE OF THE MUNICIPALITY'S CONTRIBUTIONS**  
**DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 10,292	\$ 9,103	\$ 9,732	\$ 10,182
Contributions in relation to the contractually required	10,292	9,103	9,732	10,182
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Municipality's covered-employee payroll	\$ 171,539	\$ 151,722	\$ 162,205	\$ 169,693
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Municipality will present information for those years for which information is available.

**MUNICIPALITY OF TIMBER LAKE, SD  
SCHEDULE OF THE MUNICIPALITY'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)  
DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Municipality's proportion of the net pension liability/asset	0.0372504%	0.0078281%	0.0087572%	0.0094146%
Municipality's proportionate share of net pension liability (asset)	\$ (869)	\$ (710)	\$ 29,581	\$ (39,930)
Municipality's covered-employee payroll	\$ 159,674	\$ 151,722	\$ 165,240	\$ 171,857
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.54%	0.47%	17.90%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.02%	100.10%	96.89%	104.10%

\*The amounts presented for each fiscal year were determined as of the measurement date of the collective pensional liability (asset) which is June 30.

\*\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Municipality will present information for those years for which information is available.

**MUNICIPALITY OF TIMBER LAKE, SD**  
**SCHEDULE OF THE MUNICIPALITY'S**  
**PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)**  
**DECEMBER 31, 2018**

**Changes of benefit terms:**

No significant changes.

**Changes of assumptions:**

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

***MUNICIPALITY OF TIMBER LAKE, SD  
MUNICIPAL OFFICIALS  
DECEMBER 31, 2018***

**Governing Board Members:**      **Tim Gunderson, Mayor  
Michael LaCompte, President  
Lilian Linnea-Tucotte, Vice-President  
Joshua Lemburg, Alder  
Tom Hermes, Alder  
Vacant**

**Municipal Finance Officer:**      **Karla M. Nordyke**

**Municipal Attorney:**              **Eric H. Bogue**