



Financial Statements
December 31, 2009 and 2008

Custer County Housing and Redevelopment Commission

CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Custer County Housing and Redevelopment Commission (A Component Unit of Custer County)
Custer, South Dakota

We have audited the accompanying statement of net assets of **Custer County Housing and Redevelopment Commission**, a component unit of Custer County, as of December 31, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Commission's 2008 financial statements and, in our report dated September 29, 2009, we expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Custer County Housing and Redevelopment Commission** as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented the Management's Discussion and Analysis that governmental 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2012, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information set forth on pages 16 through 22 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Sioux Falls, South Dakota
July 31, 2012

CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 (WITH COMPARATIVE SUMMARIZED INFORMATION FOR DECEMBER 31,
2008)

ASSETS	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash		
Operating cash	\$ 8,293	\$ 8,086
Restricted cash - construction account	1,923	1,916
Restricted cash - PILOT/insurance account	5,882	5,906
Prepaid expenses	2,926	4,902
Accounts receivable - related parties	34,733	79,148
Other receivables	4,566	1,328
	<u>58,323</u>	<u>101,286</u>
RESTRICTED INVESTMENTS		
Restricted cash - reserve account	142,535	111,593
Restricted cash - security deposits	13,034	12,666
Reserve account - certificates of deposit	72,094	96,530
Security deposit - certificates of deposit	11,652	11,202
	<u>239,315</u>	<u>231,991</u>
OTHER ASSETS		
Notes receivable	200,000	200,000
Land - Hermosa	705,868	714,973
Investment in Trail View Estates Limited Partnership I	(24,832)	14,599
Investment in Trail View Estates Limited Partnership II	21,410	21,412
	<u>902,446</u>	<u>950,984</u>
LAND, PROPERTY AND EQUIPMENT		
Land	107,182	107,182
Land improvements	118,740	118,740
Buildings	2,846,672	2,846,672
Equipment and furniture	172,113	161,631
	<u>3,244,707</u>	<u>3,234,225</u>
Less accumulated depreciation	(1,006,836)	(917,216)
	<u>2,237,871</u>	<u>2,317,009</u>
	<u>\$ 3,437,955</u>	<u>\$ 3,601,270</u>

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 68,921	\$ 326,302
Accounts payable	280,105	279,189
Accrued liabilities		
Interest	91,151	73,680
Payroll taxes	1,847	2,287
Payments in lieu of taxes	19,113	19,978
Tenant security deposits	23,003	23,868
Deferred revenue	-	4,932
Short-term borrowings	258,472	280,472
	<u>742,612</u>	<u>1,010,708</u>
Total current liabilities		
	742,612	1,010,708
LONG-TERM DEBT, less current maturities	<u>2,857,551</u>	<u>2,672,956</u>
Total liabilities	<u>3,600,163</u>	<u>3,683,664</u>
NET ASSETS		
Invested in capital assets, net of related debt	(423,772)	(417,420)
Restricted net assets - reserve accounts	247,120	239,813
Unrestricted net assets	14,444	95,213
	<u>(162,208)</u>	<u>(82,394)</u>
Total net assets		
	(162,208)	(82,394)
Total liabilities and net assets	<u>\$ 3,437,955</u>	<u>\$ 3,601,270</u>

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEAR ENDED DECEMBER 31, 2009 (WITH COMPARATIVE SUMMARIZED INFORMATION FOR
 THE YEAR ENDED DECEMBER 31, 2008)**

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Rental income	\$ 237,612	\$ 231,762
Miscellaneous	63,437	10,080
	<u>301,049</u>	<u>241,842</u>
OPERATING EXPENSES		
Administrative	95,192	75,479
Utilities	76,161	66,944
Maintenance	54,567	46,836
Taxes and insurance	40,314	39,420
Depreciation	89,620	89,495
	<u>355,854</u>	<u>318,174</u>
OPERATING LOSS	(54,805)	(76,332)
NONOPERATING REVENUE (EXPENSE)		
Interest income	5,447	8,280
Interest expense	(148,198)	(153,500)
Interest credit subsidy	93,622	93,622
Rental assistance	66,769	67,076
Loss from investments in Trail View Estates	(39,433)	(24,517)
Gain on sale of land	(3,216)	-
	<u>(19,009)</u>	<u>(11,039)</u>
NET LOSS	(79,814)	(85,371)
NET ASSETS, BEGINNING OF YEAR	(82,394)	2,977
NET ASSETS, END OF YEAR	\$ (162,208)	\$ (82,394)

CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009 (WITH COMPARATIVE SUMMARIZED INFORMATION FOR
THE YEAR ENDED DECEMBER 31, 2008)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Receipts from tenant payments	\$ 228,577	\$ 237,972
Receipts for other	60,221	10,080
Payments for operating expenses	(77,380)	(93,976)
Payments to employees	(123,109)	(65,614)
Payments in lieu of taxes	(19,743)	(19,780)
Net cash from operating activities	<u>68,566</u>	<u>68,682</u>
INVESTING ACTIVITIES		
Cash received for interest	5,447	8,280
Deposits to and interest earned on certificates of deposit	-	(37,457)
Withdrawals from certificates of deposit	23,986	-
Investments in limited partnerships	-	(2,001)
Net cash from (used for) investing activities	<u>29,433</u>	<u>(31,178)</u>
NONCAPITAL FINANCING ACTIVITIES		
Receipts from rental assistance	66,769	67,076
Proceeds from short term debt	-	5,000
Principal payments on short-term borrowings	(22,000)	-
Net cash from noncapital financing activities	<u>44,769</u>	<u>72,076</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of property and equipment	(10,482)	(7,316)
Purchases of land	(12,895)	(34,210)
Proceeds from sale of land	22,000	-
Principal payments on long-term debt	(72,786)	(57,518)
Mortgage interest paid	(37,105)	(35,393)
Net cash used for capital and related financing activities	<u>(111,268)</u>	<u>(134,437)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	31,500	(24,857)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>140,167</u>	<u>165,024</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 171,667</u></u>	<u><u>\$ 140,167</u></u>

(continued on next page)

STATEMENTS OF CASH FLOWS – page 2

	<u>2009</u>	<u>2008</u>
NON-CASH CAPITAL, FINANCING AND INVESTING ACTIVITIES		
Interest credit subsidy	<u>\$ 93,622</u>	<u>\$ 93,622</u>
OPERATING ACTIVITIES:		
Operating income (loss)	\$ (54,805)	\$ (78,165)
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation	89,620	89,495
Gain on sale of assets	(3,216)	-
Change in assets and liabilities		
Prepaid expenses	1,976	(743)
Accounts receivable - related parties	44,415	11,793
Other receivables	(3,238)	850
Accounts payable	916	38,022
Security deposits	(865)	428
Accrued expenses	(1,305)	2,070
Deferred revenue	(4,932)	4,932
Net cash from operating activities	<u>\$ 68,566</u>	<u>\$ 68,682</u>

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 (WITH COMPARATIVE TOTALS FROM 2008)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial statements presented in this report represent all the programs and fiscal activities under the control of the Custer County Housing and Redevelopment Commission, a component unit of Custer County. The Custer County Commissioners have the authority to appoint a voting majority of the Commission's board members.

Custer County Housing and Redevelopment Commission (the Commission) operates 70 units of housing for the elderly and disabled in the communities of Custer County, South Dakota. The Commission receives rental and interest subsidies from the U.S. Department of Agriculture (USDA) and is a sub-recipient of monies from the Department of Housing and Urban Development (HUD).

Component units are legally separate entities for which the commission is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the commission's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on the commission. Using these criteria, the commission has one component unit which is blended into the commission. For a discussion of Trail View Estates, see Note 9.

Basis of Presentation

The Commission is considered a single enterprise fund for financial reporting purposes, and includes the Commission and a blended component unit as noted above. The activities of the Commission are recorded under various programs established for the administration of the Commission's programs. The Commission's financial statements have been prepared on the basis of the governmental proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through tenant rentals and housing assistance programs. The Commission's financial statements are presented on the flow of economic resources measurement focus and use the accrual basis of accounting. The Commission applies all applicable Government Accounting Standards Board ("GASB") pronouncements, as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB Statement 20, the Commission does not apply FASB Statements and Interpretations issued after November 30, 1989 that conflict with or contradict GASB pronouncements.

Operating income (loss) includes revenues and expenses related to the primary, continuing operations of the Commission. Principal operating revenues are rents charged to tenants. Principal operating expenses are the costs of providing housing and include administrative expenses and depreciation and amortization. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all highly liquid investments (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

Income Taxes

The Commission is a governmental entity exempt from federal income taxes; therefore, no provision for income taxes has been presented in the accompanying financial statements.

Property and Equipment

Property and equipment are reported in the basic financial statements at cost. The Commission defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Expenditures for improvements that will significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense currently. When depreciable assets are retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in the income. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Furniture and equipment	10 years
Land improvements	10 years

Land holding cost (prior to development) of \$16,111 and \$34,210 has been capitalized as Land-Hermosa in 2009 and 2008, respectively.

Revenue Recognition

Rental income from tenants and rental assistance from the USDA are recognized in the period due. The interest subsidy is recognized in the same period as the related interest expense.

Investments

In general, SDCL 11-7-31 permits funds held in reserves or debt service funds, or any funds not required for immediate disbursement, in property and securities in which savings banks may legally invest funds subject to their control. Supplemental to this authority, SDCL 4-5-6 permits public 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); or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered and whose only investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS

The Commission's cash and investment accounts at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
General operating account	\$ 8,293	\$ 6,895
General operating account - Trail View Estates, Inc.	-	1,191
Construction account	1,923	1,916
Insurance account	5,882	5,906
Reserve account	214,629	208,123
Security deposit account	13,034	23,868
Total cash and certificates of deposit	<u>\$ 243,761</u>	<u>\$ 247,899</u>

The Commission's deposits are made and held in qualified public depositories as defined by SDCL 4-6A-1. In South Dakota, 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. The Commission has entered into a general depository agreement in which deposits in excess of the amounts insured by the FDIC shall be fully and continually secured by the bank by the deposit or setting aside of collateral of the types and in the manner as is prescribed by State law for the security of public funds.

The Commission does not hold any investments other than cash and certificates of deposits with financial institutions. The Commission does not have a formal investment policy that would limit its investment choices or limit the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Commission does not have a policy that limits the amount the commission may invest in any one issuer.

The Commission owns and operates three USDA properties. As a condition to obtaining financing, the Commission must establish and maintain a reserve account for each property. Deposits of \$15,986 annually are required for Landover Estates 1 and 2 until the reserve reaches \$159,855. Deposits for Landover Estates 3 are based on units and rent income. Deposits for Landover Estates 4 are \$200 per unit per year, increasing by 3% annually. The property reserve accounts included in the financial statements funded with cash and certificates of deposit of \$134,421 and \$72,094, respectively, as of December 31, 2009, were as follows:

NOTES TO FINANCIAL STATEMENTS

2009:	<u>Landover Estates 1 and 2</u>	<u>Landover Estates 3</u>	<u>Landover Estates 4</u>
Reserve balance, beginning of year	\$ 175,266	\$ 8,653	\$ 16,441
Deposits, including interest	25,751	1,306	2,692
Authorized withdrawals	(20,154)	(1,407)	(2,033)
Authorized transfer of funds	-	-	-
	<u>\$ 180,863</u>	<u>\$ 8,552</u>	<u>\$ 17,100</u>
Reserve balance, end of year			
Required balance, beginning of year	\$ 132,190	\$ -	\$ 8,754
Required deposits	15,986	-	2,535
Authorized withdrawals	(20,154)	-	(2,033)
Authorized transfer of funds	-	-	-
	<u>\$ 128,022</u>	<u>\$ -</u>	<u>\$ 9,256</u>
Required balance, end of year			
Amount overfunded	<u>\$ 52,841</u>	<u>\$ 8,552</u>	<u>\$ 7,844</u>

The property reserve accounts included in the financial statements funded with cash and certificates of deposit of \$103,830 and \$96,530, respectively, as of December 31, 2008, were as follows:

2008:	<u>Landover Estates 1 and 2</u>	<u>Landover Estates 3</u>	<u>Landover Estates 4</u>
Reserve balance, beginning of year	\$ 171,610	\$ 5,616	\$ 14,192
Deposits, including interest	23,562	3,037	2,912
Authorized withdrawals	(17,774)	-	(663)
Authorized transfer of funds	(2,132)	-	-
	<u>\$ 175,266</u>	<u>\$ 8,653</u>	<u>\$ 16,441</u>
Reserve balance, end of year			
Required balance, beginning of year	\$ 136,110	\$ -	\$ 6,956
Required deposits	15,986	-	2,461
Authorized withdrawals	(17,774)	-	(663)
Authorized transfer of funds	(2,132)	-	-
	<u>\$ 132,190</u>	<u>\$ -</u>	<u>\$ 8,754</u>
Required balance, end of year			
Amount overfunded	<u>\$ 43,076</u>	<u>\$ 8,653</u>	<u>\$ 7,687</u>

In addition, the Commission must maintain a separate account for tenant security deposits for each property in an amount equal to the security deposit liability.

Rents cannot exceed the rates approved by USDA.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – LAND, PROPERTY AND EQUIPMENT

Land, property and equipment activity for the years ended December 31, 2009 and 2008 were as follows:

2009:	Balance 1/1/09	Additions	Disposals	Balance 12/31/09
Non-depreciable: Land	\$ 107,182	\$ -	\$ -	\$ 107,182
Depreciable:				
Land improvements	118,740	-	-	118,740
Buildings	2,846,672	-	-	2,846,672
Equipment and furniture	161,631	10,482	-	172,113
	<u>\$ 3,234,225</u>	<u>\$ 10,482</u>	<u>\$ -</u>	<u>\$ 3,244,707</u>
2008:	Balance 1/1/08	Additions	Disposals	Balance 12/31/08
Non-depreciable: Land	\$ 107,182	\$ -	\$ -	\$ 107,182
Depreciable:				
Land improvements	118,740	-	-	118,740
Buildings	2,846,672	-	-	2,846,672
Equipment and furniture	154,315	7,316	-	161,631
	<u>\$ 3,226,909</u>	<u>\$ 7,316</u>	<u>\$ -</u>	<u>\$ 3,234,225</u>

Accumulated depreciation activity for the years ended December 31, 2009 and 2008 were as follows:

2009:	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
Land	\$ -	\$ -	\$ -	\$ -
Land improvements	49,752	8,311	-	58,063
Buildings	743,456	71,166	-	814,622
Equipment and furniture	124,008	10,143	-	134,151
	<u>\$ 917,216</u>	<u>\$ 89,620</u>	<u>\$ -</u>	<u>\$ 1,006,836</u>
2008:	Balance 1/1/08	Additions	Deletions	Balance 12/31/08
Land	\$ -	\$ -	\$ -	\$ -
Land improvements	41,065	8,687	-	49,752
Buildings	672,295	71,161	-	743,456
Equipment and furniture	114,361	9,647	-	124,008
	<u>\$ 827,721</u>	<u>\$ 89,495</u>	<u>\$ -</u>	<u>\$ 917,216</u>

In 2004, the Commission purchased land in Hermosa, South Dakota, for a potential future housing development. As of December 31, 2009, the land purchase and pre-construction costs totaled \$705,868 and are included as an other asset on the statement of net assets.

During 2004, land was purchased and construction began on two housing developments. The first development, Horseshoe Park I, was a program under the control of Custer County Housing and Redevelopment Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PAYMENTS IN LIEU OF TAXES

Public housing authorities are not required to pay property taxes based on the normal property value assessment and tax levy procedures on real property owned, but rather make payments to Custer County in lieu of taxes (PILOT) based on 10 percent of gross rents less various expenses.

NOTE 5 – SHORT-TERM BORROWINGS

Short term borrowings consist of 6% to 10% notes payable to individuals, due at various dates. The balance as of December 31, 2009 and 2008, was \$258,472 and \$280,472, respectively. Funds were advanced for land purchases and general operational needs.

Following is a schedule of changes in short-term borrowings for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 280,472	\$ 275,472
Issuance of new debt	-	5,000
Repayments	<u>(22,000)</u>	-
	<u>\$ 258,472</u>	<u>\$ 280,472</u>

NOTE 6 – LONG-TERM DEBT

Long-term debt at December 31, 2009 and 2008, consisted of:

	<u>2009</u>	<u>2008</u>
8.75% note payable to USDA, reducing to an effective rate of 1%, due in monthly installments of \$1,707, including interest, to May 2041, secured by land, building and equipment of Landover #1	\$ 732,885	\$ 739,171
8.75% note payable to USDA, reducing to an effective rate of 1%, due in monthly installments of \$28, including interest, to August 2041, secured by land, building and equipment of Landover #2	12,667	12,739
7.5% note payable to USDA, reducing to an effective rate of 1%, due in monthly installments of \$1,784, including interest, to December 2045, secured by land, building and equipment of Landover #2	794,853	799,015
6.25% note payable to First Western Bank, due in monthly installments of \$920, including interest, to December 2017, secured by land and building of Landover #3	34,180	42,790

NOTES TO FINANCIAL STATEMENTS

	<u>2009</u>	<u>2008</u>
6% note payable to an individual, due in quarterly installments of \$5,013, including interest, to February 2009, with remaining balance due on that date, secured by land at Hermosa	\$ 259,583	\$ 264,829
0% note payable to SDHDA, due in monthly installments of \$470, to December 2017, secured by land and buildings of Landover #3	44,510	50,620
0% note payable to SDHDA, due in monthly installments of \$1,475, to December 2036, secured by land and buildings of Landover #4	476,425	495,600
0% note payable to SDHDA, due in irregular monthly installments until December 2038, on demand, secured by land and buildings of Horseshoe Park, LLC	571,369	591,994
0% note payable to Custer County, due in annual installments of \$1,000, to December 2007, for Landover #1, unsecured	-	2,500
	<u>2,926,472</u>	<u>2,999,258</u>
Less current portion	<u>(68,921)</u>	<u>(326,302)</u>
	<u>\$ 2,857,551</u>	<u>\$ 2,672,956</u>

The above notes payable to USDA and SDHDA are also secured by an assignment of all rents, profits and income.

Following is a schedule of changes in long-term debt for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 2,999,258	\$ 3,056,776
Issuance of new debt	-	-
Repayments	<u>(72,786)</u>	<u>(57,518)</u>
	<u>\$ 2,926,472</u>	<u>\$ 2,999,258</u>

NOTES TO FINANCIAL STATEMENTS

A summary of required principal and interest payments on the long-term debt follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest *</u>	<u>Total</u>
2010	\$ 68,921	\$ 141,805	\$ 210,726
2011	72,512	139,714	212,226
2012	74,758	137,470	212,228
2013	71,004	135,146	206,150
2014	279,566	133,185	412,751
2015-2019	299,612	576,830	876,442
2020-2024	339,908	524,423	864,331
2025-2029	425,043	444,989	870,032
2030-2034	550,342	324,489	874,831
2035-2039	434,737	166,546	601,283
2040-2044	248,629	73,104	321,733
2045-2049	61,440	2,525	63,965
	<u>\$ 2,926,472</u>	<u>\$ 2,800,226</u>	<u>\$ 5,726,698</u>

* Note: interest before interest subsidy

NOTE 7 – RISK MANAGEMENT

The Commission purchases health insurance for its employees; liability insurance for risks related to torts, theft or damage to property; errors and omissions of public officials; and worker's compensation insurance from commercial carriers. Insurance is purchased by the Commission to provide coverage of losses that may occur. Settlement amounts paid did not exceed insurance coverage for the years ended December 31, 2009, 2008 and 2007.

The Commission provides coverage for unemployment benefits by participating with the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

NOTE 8 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission's operations are concentrated in serving families of the multifamily real estate market. In addition, the Commission operates in a heavily regulated environment. The operations of the Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD, SDHDA and USDA. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

NOTE 9 – TRAIL VIEW ESTATES

Trail View Estates Limited Partnership I and Trail View Estates Limited Partnership II are low and moderate income housing projects in Custer, South Dakota, of which Trail View Estates, Inc. has 1% ownership. The partnerships were formed to effectively utilize available low income housing tax credits allocated by the South Dakota Housing Development Authority.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

Custer County Housing and Redevelopment Commission assigned its general partnership interest in Trail View Estates Limited Partnership I to Trail View Estates, Inc., a South Dakota non-profit corporation formed December 28, 1998, for a period ending December 31, 2015. The corporation's purpose is to develop low to moderate income housing in Custer, South Dakota. The corporation has no members and the directors are the directors of the Custer County Housing and Redevelopment Commission. Upon dissolution of the corporation, all assets shall be distributed to Custer County Housing and Redevelopment Commission. Trail View Estates, Inc. also invested in Trail View Estates Limited Partnership II.

The assets of the corporation include a non-interest-bearing promissory note dated December 30, 1998, in the principal amount of \$200,000 due from Trail View Estates Limited Partnership I. The note is due on demand with a maturity date of December 30, 2038. Also included in the corporation's assets is an investment of (\$24,832) and \$14,599 in Trail View Estates Limited Partnership I as of December 31, 2009 and 2008, respectively, of which the majority is land donated to this specific housing project. An investment of \$21,410 and \$21,412 in Trail View Estates Limited Partnership II is included as an asset of December 31, 2009 and 2008, respectively. Net income in the corporation is an annual management fee from Trail View Limited Partnership I per the Partnership Agreement of \$1,800, beginning in 2000 and increasing annually by 3% and an annual management fee from Trail View Limited Partnership II per the Partnership Agreement of \$1,000 beginning in 2005. The total equity in the corporation at December 31, 2009 and 2008, was \$178,374 and \$217,802 respectively.



Supplementary Information
December 31, 2009 and 2008

Custer County Housing and Redevelopment Commission

CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
COMBINING SCHEDULE OF NET ASSETS
DECEMBER 31, 2009

ASSETS	Custer County Housing Management	Landover Estates #1 and #2	Landover Estates #3	Landover Estates #4	Horseshoe Park, LLC	Trail View Estates, Inc.	Total
CURRENT ASSETS							
Cash							
Operating cash	\$ (2,974)	\$ 7,009	\$ (2,047)	\$ 5,359	\$ (250)	\$ 1,196	\$ 8,293
Restricted cash - construction account	-	1,923	-	-	-	-	1,923
Restricted cash - PILOT/insurance account	-	1,514	532	2,589	1,247	-	5,882
Prepaid expenses	1,856	464	277	173	156	-	2,926
Accounts receivable-related parties	47,091	26,834	(13,990)	(21,677)	(3,525)	-	34,733
Other receivables	4,566	-	-	-	-	-	4,566
Total current assets	<u>50,539</u>	<u>37,744</u>	<u>(15,228)</u>	<u>(13,556)</u>	<u>(2,372)</u>	<u>1,196</u>	<u>58,323</u>
RESTRICTED INVESTMENTS							
Restricted cash - reserve account	-	113,482	8,552	12,387	8,114	-	142,535
Restricted cash - security deposits	-	2,895	2,657	3,461	4,021	-	13,034
Reserve account-certificates of deposit	-	67,381	-	4,713	-	-	72,094
Security deposit-certificates of deposit	-	11,652	-	-	-	-	11,652
Total restricted investments	-	<u>195,410</u>	<u>11,209</u>	<u>20,561</u>	<u>12,135</u>	-	<u>239,315</u>
OTHER ASSETS							
Notes receivable	-	-	-	-	-	200,000	200,000
Land - Hermosa	705,868	-	-	-	-	-	705,868
Investment in Trail View Estates Limited Partnership I	-	-	-	-	-	(24,832)	(24,832)
Investment in Trail View Estates Limited Partnership II	19,400	-	-	-	-	2,010	21,410
	<u>725,268</u>	-	-	-	-	<u>177,178</u>	<u>725,268</u>
LAND, PROPERTY AND EQUIPMENT							
Land	-	34,750	8,000	19,809	44,623	-	107,182
Land improvements	-	6,344	5,452	28,047	78,897	-	118,740
Buildings	-	1,513,074	237,241	568,858	527,499	-	2,846,672
Equipment and furniture	10,596	105,634	7,811	22,561	25,511	-	172,113
	10,596	1,659,802	258,504	639,275	676,530	-	3,244,707
Less accumulated depreciation	(10,294)	(665,072)	(81,042)	(158,268)	(92,160)	-	(1,006,836)
	302	994,730	177,462	481,007	584,370	-	2,237,871
	<u>\$ 776,109</u>	<u>\$1,227,884</u>	<u>\$173,443</u>	<u>\$488,012</u>	<u>\$594,133</u>	<u>\$178,374</u>	<u>\$3,437,955</u>

(continued on next page)

COMBINING SCHEDULE OF NET ASSETS – page 2

LIABILITIES AND NET ASSETS	Custer County Housing Management	Landover Estates #1 and #2	Landover Estates #3	Landover Estates #4	Horseshoe Park, LLC	Trail View Estates, Inc.	Total
CURRENT LIABILITIES							
Current portion of long-term debt	\$ 8,495	\$ 11,423	\$ 14,803	\$ 17,700	\$ 16,500	\$ -	\$ 68,921
Accounts payable	270,507	6,955	683	1,043	917	-	280,105
Accrued interest	88,549	2,602	-	-	-	-	91,151
Accrued payroll taxes	1,847	-	-	-	-	-	1,847
Accrued payments in lieu of taxes	3,929	7,527	2,242	3,141	2,274	-	19,113
Tenant security deposits	-	13,815	2,657	3,435	3,096	-	23,003
Deferred revenue	-	-	-	-	-	-	-
Short-term borrowings	258,472	-	-	-	-	-	258,472
Total current liabilities	631,799	42,322	20,385	25,319	22,787	-	742,612
LONG-TERM DEBT, less current maturities	251,088	1,528,982	63,887	458,725	554,869	-	2,857,551
NET ASSETS							
Invested in capital assets, net of related debt	(259,281)	(280,846)	98,772	4,582	13,001	-	(423,772)
Restricted net assets - reserve accounts	-	198,847	11,741	23,150	13,382	-	247,120
Unrestricted net assets	152,503	(261,421)	(21,342)	(23,764)	(9,906)	178,374	14,444
Total net assets	(106,778)	(343,420)	89,171	3,968	16,477	178,374	(162,208)
	\$ 776,109	\$ 1,227,884	\$ 173,443	\$ 488,012	\$ 594,133	\$ 178,374	\$ 3,437,955

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
 COMBINING SCHEDULE OF REVENUES AND EXPENSES
 YEAR ENDED DECEMBER 31, 2009**

	Custer County Housing Management	Landover Estates #1 and #2	Landover Estates #3	Landover Estates #4	Horseshoe Park, LLC	Trail View Estates, Inc.	Eliminations	Total
OPERATING REVENUES								
Rental income	\$ -	\$ 119,941	\$ 32,967	\$ 46,851	\$ 37,853	\$ -	\$ -	\$ 237,612
Miscellaneous	169,676	3,748	-	-	925	3,349	(114,261)	63,437
Total operating revenues	169,676	123,689	32,967	46,851	38,778	3,349	(114,261)	301,049
ADMINISTRATIVE EXPENSES								
Management salaries and benefits	73,914	12,420	1,467	849	899	-	(23,263)	66,286
Professional fees	1,711	3,690	687	1,274	494	-	(153)	7,703
Management fees	-	1,805	567	3,500	1,440	3,349	(10,661)	-
Rent expense	3,470	-	-	-	-	-	-	3,470
Telephone	9,894	955	127	213	186	-	(9,161)	2,214
Office expense	2,013	461	40	98	74	-	-	2,686
Payroll taxes	3,842	1,661	315	681	137	-	(1,820)	4,816
Worker's compensation	474	405	183	202	35	-	(789)	510
Advertising and miscellaneous	5,210	1,757	677	172	190	-	(500)	7,506
Total administrative expenses	100,528	23,154	4,063	6,989	3,455	3,349	(46,347)	95,191
UTILITIES								
Electricity and heat	31,017	40,727	-	121	120	-	(25,120)	46,865
Water and sewer	20,230	8,903	3,006	2,857	3,110	-	(16,023)	22,083
Garbage and trash removal	4,557	2,971	695	1,891	1,430	-	(4,331)	7,213
Total utilities	55,804	52,601	3,701	4,869	4,660	-	(45,474)	76,161

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COMBINING SCHEDULE OF REVENUES AND EXPENSES – page 2

	Custer County Housing Management	Landover Estates #1 and #2	Landover Estates #3	Landover Estates #4	Horseshoe Park, LLC	Trail View Estates, Inc.	Trail View Estates, Inc.	Total
MAINTENANCE EXPENSES								
Maintenance and repairs, supplies, contract, service, and salary Grounds	\$ 12,127 6,846	\$ 38,290 441	\$ 3,050 606	\$ 3,039 606	\$ 3,708 626	\$ - -	\$ (10,611) (4,161)	\$ 49,603 4,964
Total maintenance expenses	18,973	38,731	3,656	3,645	4,334	-	(14,772)	54,567
TAXES AND INSURANCE								
Real estate taxes	1,326	8,881	3,429	3,141	2,101	-	-	18,878
Property and liability insurance	11,057	8,531	3,527	3,693	2,276	-	(7,668)	21,416
Fidelity coverage insurance	(117)	84	13	22	18	-	-	20
Total taxes and insurance	12,266	17,496	6,969	6,856	4,395	-	(7,668)	40,314
Depreciation expense	664	42,488	6,260	19,210	20,998	-	-	89,620
TOTAL OPERATING EXPENSES	188,235	174,470	24,649	41,569	37,842	3,349	(114,261)	355,853
Operating income (loss)	(18,559)	(50,781)	8,318	5,282	936	-	-	(54,804)
NONOPERATING REVENUE (EXPENSE)								
Interest income	33	5,206	20	183	-	5	-	5,447
Interest expense	(17,756)	(127,258)	(3,184)	-	-	-	-	(148,198)
Gain on sale of land	(3,216)	-	-	-	-	-	-	(3,216)
Loss from investments in Trail View Estates	-	-	-	-	-	(39,433)	-	(39,433)
Interest credit subsidy	-	93,622	-	-	-	-	-	93,622
Rental assistance	-	66,769	-	-	-	-	-	66,769
NET INCOME (LOSS)	\$ (39,498)	\$ (12,442)	\$ 5,154	\$ 5,465	\$ 936	\$ (39,428)	\$ -	\$ (79,813)

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
 SCHEDULE OF RENTAL INFORMATION
 YEAR ENDED DECEMBER 31, 2009**

RURAL DEVELOPMENT PROPERTY - LANDOVER ESTATES #1 AND #2

<u>Size of Unit</u>	<u>Rental Rate</u>	<u>Market Rate</u>	<u>Number of Units</u>	<u>Number Occupied at December 31, 2009</u>
One Bedroom	\$ 455	\$ 625	32	29
Two Bedroom	\$ 490	\$ 715	6	6
Occupancy rate for year ended December 31, 2009			91.4%	
Occupancy rate at December 31, 2009			92.1%	

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
 SCHEDULE OF INSURANCE
 YEAR ENDED DECEMBER 31, 2009**

MNGT & LANDOVER ESTATES #1 AND #2

<u>INSURER</u>	<u>POLICY#</u>	<u>COVERAGE PERIOD</u>	<u>COVERAGE</u>	<u>PREMIUM</u>
Midwest Family Mutual Insurance Company	BPSD0560067141	4/1/09 to 4/1/2010	Business Property - \$3,300,000 Equipment - \$192,000 Business liability and medical expenses - \$1,000,000 per occurrence Medical expenses - \$1,000 per person Damages to Premises - \$100,000 any one premises	\$ 15,680
Dacotah Insurance	WCSD0560071957	11/11/09 to 11/11/10	Worker's Compensation \$100,000 per occurrence and per employee. \$500,000 policy limit.	\$ 2,368
Western Surety Company	Bond # 69209213	11/11/09 to 11/11/10	Surety Bond - \$102,000	\$ 1,020

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
 SCHEDULE OF INTER-PROGRAM ACCOUNTS
 YEAR ENDED DECEMBER 31, 2009**

Allocations and reimbursement of costs between programs are reimbursed regularly, and usually result in or create inter-program receivable and payable balances. Those inter-program receivables and payables consisted of the following at December 31, 2009:

	<u>Receivables</u>	<u>Payables</u>
Custer County Housing Management and Landover Estates #1 and #2	\$ 39,192	\$ -
Landover Estates #3	-	13,990
Landover Estates #4	-	21,677
Horseshoe Park, LLC	-	3,525
	<u>\$ 39,192</u>	<u>\$ 39,192</u>

Included in accounts receivable-related parties are \$33,017 receivable from Trail View Estates Limited Partnership I and \$1,533 receivable from Trail View Estates Limited Partnership II.

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009**

<u>Federal Grantor/Pass-Through Grantor</u> <u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Amount</u>
U.S. Department of Agriculture - direct funding:		
Rural Rental Housing Loans	10.415	\$ 1,540,405
Rural Rental Assistance Payments	10.427	66,769
	Total for cluster	1,607,174
U.S. Department of Housing and Urban Development - direct funding:		
Home Investment Partnership Program	14.239	1,092,304
Total expenditures of Federal Awards		\$ 2,699,478

Note to Schedule of Expenditures of Federal Awards

General – The above schedule of expenditures of federal awards presents the activity of all federal financial awards programs of Custer County Housing and Redevelopment Commission. The Commission’s reporting entity is defined in the notes to the component unit financial statements of the Commission.

Basis of Presentation – The above schedule of expenditures of federal awards includes the federal grant activity of Custer County Housing and Redevelopment Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



CPAs & BUSINESS ADVISORS

**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 Commissioners
Custer County Housing and Redevelopment Commission
Custer, South Dakota

We have audited the financial statements of **Custer County Housing and Redevelopment Commission** (a component unit of Custer County) as of and for the year ended December 31, 2009, and have issued our report thereon dated July 31, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Custer County Housing and Redevelopment Commission's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the accompanying schedule of findings and questioned costs as Finding 2009-1 and 2009-3 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2009-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Custer County Housing and Redevelopment Commission's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The Custer County Housing and Redevelopment Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by OMB Circular A-133, Section __.320 a., and by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Sioux Falls, South Dakota
July 31, 2012



CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners
Custer County Housing and Redevelopment Commission
Custer, South Dakota

Compliance

We have audited the compliance of **Custer County Housing and Redevelopment Commission** (a component unit of Custer County) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission'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. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion **Custer County Housing and Redevelopment Commission** complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009.

Internal Control over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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, as defined above.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by OMB Circular A-133, Section .320 a., and by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Sioux Falls, South Dakota
July 31, 2012

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2009**

Part I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued is **unqualified**.

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major programs is unqualified for all major programs tested.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 Yes X No

Identification of major programs

The Custer County Housing and Redevelopment Commission's major programs for the year ended December 31, 2009 were 10.415 Rural Rental Housing Loans and 10.427 Rural Rental Assistance Payments (cluster).

Dollar threshold use to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

Part II - Findings Relating to the Financial Statements

FINDING 2009-1 – Preparation of Financial Statements

Criteria: A good system of internal accounting control contemplates an adequate system for reporting and processing the financial statements.

Condition: The Commission has elected not to have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009**

Cause: The Commission does not have staff to prepare the financial statement and accompanying notes.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This circumstance is not unusual in an entity of the Commission's size. We recommend management and those charged with governance take the responsibility to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Corrective Action: Agree, the Commission is aware of their responsibility regarding the financial statements. Due to cost constraints, we will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

FINDING 2009-2 – Segregation of Duties

Criteria: The Commission has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties.

Condition: An effective internal control structure contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. This is not unusual in entities of your size, but management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of the operations.

Cause: Due to cost constraints and the limited size of staff, the Commission does not facilitate the segregation of duties necessary to achieve a low level of control risk.

Effect: Inadequate segregation of duties could adversely affect the Commission's ability to detect misstatements in amounts that would be significant in relation to the financial statements in a timely period by employees in the normal course of performing their assigned task.

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the Commission.

Management's Corrective Action: Agree, the Commission agrees with the finding and will continue to monitor the Commission's operations and procedures.

FINDING 2009-3 – Adjusting Journal Entries

Criteria: Proper controls over financial reporting include the reconciliation of accounts and preparation and review of journal entries to the general ledger that are materially correct.

Condition: During the course of our engagement, we identified and proposed several significant audit adjustments to the Commission's financial statements.

Cause: Due to staffing and other constraints, the Commission did not post all necessary adjustments to the financial statements.

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009**

Effect: Inadequate controls over financial reporting of the Commission could result in the likelihood that the Commission would not be able to identify necessary journal entries and post them to the general ledger in a timely fashion.

Recommendation: It is the responsibility of management and those charged with governance to be aware of and post the necessary adjustments, and we recommend management continually be aware of the financial reporting of the Commission and the internal controls that impact financial reporting.

Management's Corrective Action: Agree, the Commission agrees with the finding and will continue to monitor the Commission's operations and procedures.

Part III – Federal Award Findings and Questioned Costs - None

Part IV – Status of Prior Audit Findings

No findings or questioned costs were reported in the 2008 audit.

**CUSTER COUNTY HOUSING AND REDEVELOPMENT COMMISSION
CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2009**

There were no findings or questioned costs reported. There were deficiencies in internal control over financial reporting included in the current year schedule of findings and questioned costs for Custer County Housing and Redevelopment Commission. See management's response to the findings on page 31.