

CITY OF CUSTER

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2025**

CITY OF CUSTER

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Custer
Custer, South Dakota

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Custer (the City), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

City Council

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted management's discussion and analysis, budgetary comparison information, and pension schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

May 5, 2026

CITY OF CUSTER

STATEMENT OF NET POSITION
DECEMBER 31, 2025

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments	\$ 13,815,918	\$ 3,470,610	\$ 17,286,528
Receivables	330,993	306,413	637,406
Other Assets	54,883	-	54,883
Net Pension Asset	1,541	1,383	2,924
Capital Asset:			
Land and Construction in Progress	2,643,723	274,010	2,917,733
Other Capital Assets, Net of Depreciation	5,646,264	27,535,278	33,181,542
TOTAL ASSETS	22,493,322	31,587,694	54,081,016
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows of Resources	144,385	129,642	274,027
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
	\$ 22,637,707	\$ 31,717,336	\$ 54,355,043
LIABILITIES			
Accounts Payable	\$ 125,825	\$ 63,375	\$ 189,200
Other Current Liabilities	14,412	148,213	162,625
Long-Term Liabilities:			
Due Within One Year	2,930,401	366,933	3,297,334
Due in More Than One Year	-	9,965,347	9,965,347
TOTAL LIABILITIES	3,070,638	10,543,868	13,614,506
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows of Resources	81,801	73,448	155,249
NET POSITION			
Net Investment in Capital Assets	5,422,476	17,563,212	22,985,688
Restricted for:			
Business Improvement District	48,307	-	48,307
Promoting the City	1,116,216	-	1,116,216
SDRS Pension	64,125	57,577	121,702
Debt Services	5,739	-	5,739
Permanently Restricted Purposes:			
Expendable	103,651	-	103,651
Nonexpendable	50,000	-	50,000
Unrestricted	12,674,754	3,479,231	16,153,985
TOTAL NET POSITION	19,485,268	21,100,020	40,585,288
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
	\$ 22,637,707	\$ 31,717,336	\$ 54,355,043

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

CITY OF CUSTER

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2025

Functions/Programs	--- Program Revenues ---				Net (Expense) Revenue and		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 1,090,560	\$ 165,660	\$ 3,969	\$ -	\$ (920,931)	\$ -	\$ (920,931)
Public Safety	646,112	489	-	-	(645,623)	-	(645,623)
Public Works	1,080,933	107,245	-	-	(973,688)	-	(973,688)
Health and Welfare	359,249	-	-	-	(359,249)	-	(359,249)
Culture and Recreation	493,624	6,010	-	-	(487,614)	-	(487,614)
Conservation and Development	471,013	-	-	-	(471,013)	-	(471,013)
Miscellaneous	-	266,940	-	-	266,940	-	266,940
Interest on Long-Term Debt	186,330	-	-	-	(186,330)	-	(186,330)
Total Governmental Activities	4,327,821	546,344	3,969	-	(3,777,508)	-	(3,777,508)
Business-Type Activities:							
Water	896,231	777,895	-	-	-	(118,336)	(118,336)
Sewer	1,106,187	1,199,754	-	1,192,823	-	1,286,390	1,286,390
Solid Waste	222,737	204,529	-	-	-	(18,208)	(18,208)
Total Business-Type Activities	2,225,155	2,182,178	-	1,192,823	-	1,149,846	1,149,846
Total Primary Government	\$ 6,552,976	\$ 2,728,522	\$ 3,969	\$ 1,192,823	(3,777,508)	1,149,846	(2,627,662)
General Revenues:							
Taxes:							
Property Taxes					1,463,783	-	1,463,783
Sales Taxes					3,182,003	-	3,182,003
State Shared Revenue					15,661	-	15,661
Unrestricted Investment Earnings					418,853	101,755	520,608
Miscellaneous Revenue					34,215	1,277	35,492
Total General Revenue					5,114,515	103,032	5,217,547
Change in Net Position					1,337,007	1,252,878	2,589,885
Net Position - Beginning					18,148,261	19,847,142	37,995,403
Net Position - Ending					\$ 19,485,268	\$ 21,100,020	\$ 40,585,288

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

CITY OF CUSTER

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2025**

	General Fund	Third Penny (Promotion) Fund	BID Fund
Assets			
101 Cash and Cash Equivalents	\$ 8,025,889	\$ 543,532	\$ 45,839
105 Investments	4,447,952	551,660	-
108 Property Taxes Receivable - Delinquent	66,074	-	-
110 Sales Taxes Receivable	175,802	15,674	-
115 Accounts Receivable	22,254	-	2,468
132 Due from Other Governments	17,668	-	-
135 Interest Receivable	21,720	5,350	-
155 Prepaid Expenses	54,883	-	-
Total Assets	\$ 12,832,242	\$ 1,116,216	\$ 48,307
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 80,186	\$ -	\$ -
216 Accrued Wages Payable	14,412	-	-
Total Liabilities	94,598	-	-
<i>Deferred Inflows of Resources</i>			
245 Unavailable Revenue - Property Taxes	51,797	-	-
<i>Fund Balances</i>			
<i>263 Nonspendable:</i>			
263.51 Perpetual Care Cemetery	-	-	-
263.02 Prepaid Expenses	54,883	-	-
<i>264 Restricted:</i>			
264.03 Perpetual Care Cemetery	-	-	-
264.04 Promoting the City	-	1,116,216	-
264.09 Business Improvement District	-	-	48,307
264.10 Debt Service Fund	-	-	-
<i>265 Committed:</i>			
265.99 Capital Reserve Fund	250,000	-	-
267 Unassigned	12,380,964	-	-
Total Fund Balances	12,685,847	1,116,216	48,307
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 12,832,242	\$ 1,116,216	\$ 48,307

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

TIF Debt Service Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ 47,395	\$ 48,731	\$ 8,711,386
-	104,920	5,104,532
-	-	66,074
-	-	191,476
3,983	-	28,705
-	-	17,668
-	-	27,070
-	-	54,883
<u>\$ 51,378</u>	<u>\$ 153,651</u>	<u>\$ 14,201,794</u>

\$ 45,639	\$ -	\$ 125,825
-	-	14,412
<u>45,639</u>	<u>-</u>	<u>140,237</u>

-	-	51,797
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-	50,000	50,000
-	-	54,883
-	103,651	103,651
-	-	1,116,216
-	-	48,307
5,739	-	5,739
-	-	250,000
-	-	12,380,964
<u>5,739</u>	<u>153,651</u>	<u>14,009,760</u>

<u>\$ 51,378</u>	<u>\$ 153,651</u>	<u>\$ 14,201,794</u>
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CITY OF CUSTER

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2025**

Total Fund Balances - Governmental Funds \$ 14,009,760

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 8,289,987

Long-term liabilities are not due and payable in the current period and therefore
not reported in the funds. (2,930,401)

Net pension asset reported in governmental activities is not an available financial
resource and therefore is not reported in the funds. 1,541

Pension related deferred inflows and outflows are components of pension assets and
liabilities, and therefore are not reported in the funds. 62,584

Assets such as delinquent taxes receivable are not available to pay for current
period expenditures and therefore are deferred in the funds. 51,797

Total Net Position - Governmental Funds \$ 19,485,268

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

CITY OF CUSTER

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2025

Revenue	General Fund	Third Penny (Promotion) Fund	BID Fund	TIF Debt Service Fund
<i>Taxes:</i>				
311 General Property Taxes	\$ 1,160,278	\$ -	\$ -	\$ 314,742
313 General Sales and Use Taxes	2,608,513	422,218	151,272	-
319 Penalties and Interest on Delinquent Taxes	1,423	-	-	-
320 Licenses and Permits	156,975	-	-	-
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	3,969	-	-	-
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	2,624	-	-	-
335.03 Liquor Tax Reversion	13,037	-	-	-
335.04 Motor Vehicle Licenses (5%)	55,568	-	-	-
335.08 Local Government Highway and Bridge Fund	35,739	-	-	-
<i>County Shared Revenue:</i>				
338.02 County HBR Tax	8,138	-	-	-
<i>Charges for Goods and Services:</i>				
341 General Government	8,685	-	-	-
346 Culture and Recreation	6,010	-	-	-
348 Cemeteries	3,800	-	-	-
350 Fines and Forfeits	489	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	381,578	35,198	-	-
368 Liquor Operating Agreement Income	266,940	-	-	-
369 Other	13,124	8,152	-	-
Total Revenue	4,726,890	465,568	151,272	314,742

Cemetery Perpetual Care Fund	Total Governmental Funds
\$ -	\$ 1,475,020
-	3,182,003
-	1,423
-	156,975
-	3,969
-	2,624
-	13,037
-	55,568
-	35,739
-	8,138
-	8,685
-	6,010
4,000	7,800
-	489
2,077	418,853
-	266,940
-	21,276
<u>6,077</u>	<u>5,664,549</u>

CITY OF CUSTER

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	General Fund	Third Penny (Promotion) Fund	BID Fund	TIF Debt Service Fund
Expenditures				
<i>General Government:</i>				
411 Legislative	156,077	-	-	-
413 Elections	52	-	-	-
414 Financial Administration	271,290	-	-	-
419 Other	361,807	378	-	-
<i>Public Safety:</i>				
421 Police	646,112	-	-	-
<i>Public Works:</i>				
431 Highways and Streets	607,461	-	-	-
437 Cemeteries	45,776	-	-	-
<i>Health and Welfare:</i>				
444 Humane Society	12,249	-	-	-
447 Hospital Subsidy	347,000	-	-	-
<i>Culture and Recreation:</i>				
451 Custer Cruisin'	7,807	-	-	-
451 Swimming	37,387	-	-	-
452 Parks	220,177	-	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	87,919	230,730	152,364	-
470 Debt Service	-	-	-	309,003
485 Capital Outlay	677,085	-	-	-
Total Expenditures	3,478,199	231,108	152,364	309,003
Excess of Revenue Over (Under) Expenditures	1,248,691	234,460	(1,092)	5,739
Other Financing Sources				
391 Proceeds from Sale of Capital Assets	12,939	-	-	-
Net Change in Fund Balances	1,261,630	234,460	(1,092)	5,739
Fund Balances - Beginning	11,424,217	881,756	49,399	-
Fund Balances - Ending	\$ 12,685,847	\$ 1,116,216	\$ 48,307	\$ 5,739

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

Cemetery Perpetual Care Fund	Total Governmental Funds
-	156,077
-	52
-	271,290
-	362,185
-	646,112
-	607,461
-	45,776
-	12,249
-	347,000
-	7,807
-	37,387
-	220,177
-	471,013
-	309,003
-	677,085
-	4,170,674
6,077	1,493,875
-	12,939
6,077	1,506,814
147,574	12,502,946
<u>\$ 153,651</u>	<u>\$ 14,009,760</u>

CITY OF CUSTER

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2025

Net Change in Fund Balances - Total Government Funds \$ 1,506,814

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

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense.

Capital Asset Purchases Capitalized 677,085
Depreciation Expense (694,642)

In the Statement of Activities, losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a loss is recognized. (288,271)

The governmental fund financial statement property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available." (12,660)

Payment of principal on long-term debt and accrued interest on TIF #2 is an expenditure in the governmental funds but the payment reduces long-term liabilities in the Statement of Net Position. 308,569

Increases to the interest accrual on TIF #2 does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds. (186,545)

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. (7,180)

Accrued interest expense, excluding TIF #2, reported in the Statement of Activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds. 649

Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds. 33,188

Change in Net Position of Governmental Activities \$ 1,337,007

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

CITY OF CUSTER

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2025

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Assets				
Current Assets				
101 Cash and Cash Equivalents	\$ 64,588	\$ 1,743,929	\$ 57,399	\$ 1,865,916
105 Investments	917,141	520,113	167,440	1,604,694
115 Accounts Receivable	87,762	175,585	33,993	297,340
132 Due from Other Governments	-	20	-	20
135 Interest Receivable	2,722	3,633	2,698	9,053
Total Current Assets	1,072,213	2,443,280	261,530	3,777,023
Noncurrent Assets				
189 Net Pension Asset	699	684	-	1,383
Capital Assets				
160 Land	54,482	91,913	-	146,395
162 Buildings	946,815	4,381,238	-	5,328,053
163 Accumulated Depreciation (AD) - Buildings	(709,951)	(596,754)	-	(1,306,705)
164 Improvements Other Than Buildings	9,469,549	22,504,236	-	31,973,785
165 AD - Improvements Other Than Buildings	(4,596,555)	(3,987,958)	-	(8,584,513)
166 Machinery and Equipment	423,997	1,521,053	-	1,945,050
167 AD - Machinery and Equipment	(404,586)	(1,415,806)	-	(1,820,392)
168 Construction in Progress	24,623	102,992	-	127,615
Total Noncurrent Assets	5,209,073	22,601,598	-	27,810,671
Deferred Outflows of Resources				
248 Pension Related Deferred Outflows	65,533	64,109	-	129,642
Total Assets and Deferred Outflows of Resources	\$ 6,346,819	\$ 25,108,987	\$ 261,530	\$ 31,717,336

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

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Liabilities and Net Position				
Current Liabilities				
202 Accounts Payable	\$ 12,071	\$ 32,516	\$ 18,788	\$ 63,375
205 Current Portion of Long-Term Debt	74,607	206,122	-	280,729
215 Accrued Interest Payable	2,546	94,561	-	97,107
216 Accrued Wages	3,348	3,313	-	6,661
220 Customer Deposits	44,445	-	-	44,445
233 Accrued Leave Payable	43,102	43,102	-	86,204
Total Current Liabilities	180,119	379,614	18,788	578,521
Long-Term Liabilities				
237 Long-Term Debt, Net of Current Portion	1,172,311	8,793,036	-	9,965,347
Total Liabilities	1,352,430	9,172,650	18,788	10,543,868
Deferred Inflows of Resources				
248 Pension Related Deferred Inflows	37,127	36,321	-	73,448
Net Position				
253.1 Net Investment in Capital Assets	3,961,456	13,601,756	-	17,563,212
235.29 Restricted for SDRS Pension	29,105	28,472	-	57,577
262.0 Unrestricted	966,701	2,269,788	242,742	3,479,231
Total Net Position	4,957,262	15,900,016	242,742	21,100,020
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 6,346,819	\$ 25,108,987	\$ 261,530	\$ 31,717,336

CITY OF CUSTER

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2025

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Operating Revenue				
380 Charges for Goods and Services	\$ 777,895	\$ 1,199,754	\$ 204,529	\$ 2,182,178
Operating Expenses				
410 Personal Services	330,433	325,758	-	656,191
420 Other Current Expenses	316,250	243,044	222,737	782,031
457 Depreciation	219,647	323,183	-	542,830
Total Operating Expenses	866,330	891,985	222,737	1,981,052
Operating Income (Loss)	(88,435)	307,769	(18,208)	201,126
Non-Operating Income (Expense)				
334 State Grants	-	1,187,323	-	1,187,323
361 Earnings on Deposits and Investments	48,056	44,150	9,549	101,755
390 Gain on Sale of Capital Assets	-	1,277	-	1,277
470 Interest Expense	(29,901)	(214,202)	-	(244,103)
Total Non-Operating Income	18,155	1,018,548	9,549	1,046,252
Income (Loss) before Contributions	(70,280)	1,326,317	(8,659)	1,247,378
391.07 Capital Contributions	-	5,500	-	5,500
Change in Net Position	(70,280)	1,331,817	(8,659)	1,252,878
Net Position - Beginning	5,027,542	14,568,199	251,401	19,847,142
Net Position - Ending	\$ 4,957,262	\$ 15,900,016	\$ 242,742	\$ 21,100,020

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

CITY OF CUSTER

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2025

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 763,050	\$ 1,196,833	\$ 203,558	\$ 2,163,441
Payments to Suppliers	(306,481)	(850,448)	(204,994)	(1,361,923)
Payments to Employees	(337,770)	(333,302)	-	(671,072)
Net Cash Flows Provided by (Used in) Operating Activities	118,799	13,083	(1,436)	130,446
Cash Flows from Capital and Related Financing Activities:				
Purchase of Capital Assets	(660,365)	(1,169,339)	-	(1,829,704)
Proceeds from Sale of Capital Assets	-	1,277	-	1,277
Principal Paid on Capital Debt	(73,343)	(201,392)	-	(274,735)
Proceeds from Borrowings on Long-Term Debt	-	2,158,769	-	2,158,769
Due from Other Government	-	(20)	-	(20)
Interest Paid	(29,555)	(148,322)	-	(177,877)
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(763,263)	640,973	-	(122,290)
Cash Flows Provided by Investing Activities:				
Interest Received	46,068	40,819	9,226	96,113
Change in Cash and Investments	(598,396)	694,875	7,790	104,269
Cash and Investments - December 31, 2024	1,580,125	1,569,167	217,049	3,366,341
Cash and Investments - December 31, 2025	\$ 981,729	\$ 2,264,042	\$ 224,839	\$ 3,470,610
Reconciliation of Operating Income to Net Cash Flows Provided by (Used in) Operating Activities				
Operating Income (Loss)	\$ (88,435)	\$ 307,769	\$ (18,208)	\$ 201,126
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities:</i>				
Depreciation Expense	219,647	323,183	-	542,830
<i>Change in Assets and Liabilities:</i>				
Change in Receivables	(19,045)	(2,921)	(971)	(22,937)
Change in Pension Asset	(397)	(393)	-	(790)
Change in Pension Related Deferred Outflows	(13,846)	(14,212)	-	(28,058)
Change in Accounts Payable	9,769	(607,404)	17,743	(579,892)
Change in Accrued Wages	1,118	1,180	-	2,298
Change in Customer Deposits	4,200	-	-	4,200
Change in Accrued Leave Payable	6,560	6,146	-	12,706
Change in Pension Related Deferred Inflows	(772)	(265)	-	(1,037)
Net Cash Flows Provided by (Used in) Operating Activities	\$ 118,799	\$ 13,083	\$ (1,436)	\$ 130,446
Noncash Investing, Capital and Financing Activities:				
Gain on Disposal of Capital Assets	\$ -	\$ 1,277	\$ -	\$ 1,277
Capital Asset Donated to the City	-	(5,500)	-	(5,500)
Debt Forgiveness - State Grant	-	1,187,303	-	1,187,303

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

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of the City of Custer (the City), 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.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between 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 City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into 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 City 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.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund – the General Fund is the general operating fund of the City. 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.

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

Third Penny Sales Tax Fund – A fund allowed by SDCL 10-52-8 to be used for the purpose of land acquisition, architectural fees, construction costs, payments for a civic center, auditorium or athletic facility buildings, including the maintenance, staffing and operations of such facilities, and the staffing and operation of the Custer Chamber of Commerce. This fund is a major fund.

Business Improvement District (BID) Fund – A fund allowed by SDCL 9-55 to account for a \$2 per night occupancy fee charged to motel guests. Motel operators determine how the proceeds are to be spent, usually on advertising to promote the city. This fund is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related cost. The City has the following debt service fund:

TIF Debt Service Fund – TIF funds are Tax Increment Financing Districts allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted for the payment of principal and interest on debt issued to finance a public improvement. Separate accounts are maintained for TIF District #2 and #4 revenues and expenditures. This fund is a major fund.

Permanent Funds – permanent funds are used to account for assets that are permanently set aside and from which only the income from its investments can be used for its stated legal purpose. The City has the following permanent fund:

Cemetery Perpetual Care Fund – A fund allowed by SDCL 9-32-18 to account for payments received for perpetual care of cemeteries. The payments are permanently set aside and only the income from the investments can be used for the care and maintenance of the cemetery. The Cemetery Perpetual Care Fund is 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).

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

Proprietary Funds:

- 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).

The City has the following enterprise funds:

Water Fund – A fund established by SDCL 9-47-1 to account for the operation of the City of Custer's waterworks systems and related facilities and is financed primarily by user charges. The water fund is a major fund.

Sewer Fund – A fund established by SDCL 9-48-2 to account for the operation of the City of Custer's sanitary sewer system and related facilities and is financed primarily by user charges. The sewer fund is a major fund.

Solid Waste Fund – A fund established by SDCL 9-32-11 and 34A-6 to account for the City of Custer's collection and disposal of solid waste and is financed primarily by user charges. The solid waste fund is a major fund.

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

Basis of Accounting:

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2025, are property and sales tax.

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

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

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

Cash and Cash Equivalents

The City pools the cash and investment resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of cash and investment resources on hand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purposes of the Statement of Cash Flows.

Accounts Receivable

Included in utility accounts receivable at December 31, 2025, are unbilled accounts receivable totaling approximately \$46,000, \$93,000, and \$17,000 for the water, sewer, and solid waste funds, respectively.

Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

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

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(1) Summary of Significant Accounting Policies

Capital Assets

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are reported at their acquisition value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as Improvements Other Than Buildings.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund’s Statement of Net Position.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 5,000	Straight-line	10-100 years
Buildings	\$ 5,000	Straight-line	10-50 years
Machinery and Equipment	\$ 5,000	Straight-line	5-25 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of TIF obligations, water and sewer revenue bonds, and compensated absences.

In the governmental fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund statements and the government-wide statements.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(1) Summary of Significant Accounting Policies

Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

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

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. The City has one committed fund balance for the year ended December 31, 2025. The General Fund created a Capital Reserve Replacement by the City Council passing Ordinance #722. The commitment was established to set funds aside for future capital asset replacements exceeding a cost of \$30,000, up to a maximum commitment of \$250,000. The City Council is the highest decision-making authority and would have to pass an ordinance to remove the commitment.

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 City Council, Mayor, or Finance Officer.

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

With regard to the City's governmental funds, the City uses restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The City does not have a formal minimum fund balance policy.

Proprietary fund equity is classified the same as in the government-wide financial statements. With regard to the City's proprietary funds, it is the City'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.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(1) Summary of Significant Accounting Policies

Program Revenues

Program revenues are derived directly from the program itself or from parties other than the City’s taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – 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 – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

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

Pensions

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

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adopted Accounting Standard

As of January 1, 2025, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 102, *Certain Risk Disclosures*, which expands the disclosure requirements for risks related to a government’s vulnerabilities due to certain concentrations or constraints. The disclosure criteria should be assessed for the primary government reporting unit and all other reporting units that report a liability for revenue debt. A disclosure shall be made in the notes to the financial statements if all of the following criteria are met: a concentration or constraint is known, the concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact, and an event related to the concentration or constraint that could have a substantial impact has occurred or is expected to occur within twelve months of the date the financial statements are issued. The implementation of this standard did not have a material impact on the City at December 31, 2025.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Emerging Accounting Standards

In April 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 103, *Financial Reporting Model Improvements*, which improves key components of the financial reporting model to enhance its effectiveness in providing information to the users of the financial statements. The statement redefines the information to be included in management's discussion and analysis, clarifies operating vs. nonoperating revenues and expenses in the proprietary fund statement of revenues, expenses and changes in fund net position, provides guidance on the presentation of unusual or infrequent items, updates the requirements of presentation of major component unit information, and changes the presentation of the budgetary comparison schedules. The statement is effective for the City's year ending December 31, 2026.

In September 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 104, *Disclosure of Certain Capital Assets*, which requires certain information regarding capital assets to be presented by major class. This includes lease assets, intangible right-to-use assets under public-private and public-public partnerships, subscription assets, and certain other intangible assets. In addition, new disclosures surrounding capital assets held for sale are required. The statement is effective for the City's year ending December 31, 2026.

In December 2025, the Governmental Accounting Standards Board (GASB) issued Statement No. 105, *Subsequent Events*, which clarifies the subsequent events time frame and those that constitute recognized and nonrecognized events. The standard also specifies the information items required to be disclosed about subsequent events. The statement is effective for the City's year ending December 31, 2027.

The City is currently evaluating the impact these statements will have on the financial statements.

Subsequent Events

The City has assessed subsequent events through May 5, 2026, the date which the financial statements were available to be issued.

(2) Deposits and Investments

The City 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 City'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 duly authorized to do business in South Dakota.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(2) Deposits and Investments

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

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of December 31, 2025, the City had the following cash equivalents and investments:

Investment	Credit Rating	Maturity	Fair Value
Money Market	Unrated	N/A	\$ 5,268,534
U.S. Government Securities			
US Treasury Strips - 0.75%	AAA	1-2 years	248,355
US Treasury Notes - 2.50% - 3.625%	AAA	1-4 years	497,628
External Investment Pools:			
SDFIT	Unrated	N/A	296,527
			6,311,044
Nonnegotiable Certificates of Deposit			5,963,243
Total Investments			\$ 12,274,287

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. SDFIT, as well as the U.S. Government Securities, are measured as Level 2 recurring fair value measurements according to the fair value hierarchy.

Interest Rate Risk:

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity.

Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(2) Deposits and Investments

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City has a policy to follow state law depository requirements. The bank balances at December 31, 2025 are as follows, excluding SDFIT:

	<u>Bank Balance</u>
Insured - FDIC	\$ 1,250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	9,844,736
Total Deposits	\$ 11,094,736

Concentration of Credit Risk:

The City does not allow more than 75 percent be invested in any one issuer. Additionally, investment maturities will be staggered in such a manner that all investments will not come due at the same time. Unless matched with specific cash flow, the City will not directly invest in securities maturing more than eight years from the date of purchase. The City only has cash, certificates of deposit, money market funds, and government securities.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City’s policy is to credit all income from investments to the fund making the investment, except for the Cemetery Perpetual Care Fund income, which is credited to the General Fund as required by SDCL 9-32-18.

(3) Deferred Inflows and Outflows of Resources

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

In addition to liabilities, the governmental funds balance sheet and statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist of property taxes and pension activity.

(4) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(5) Changes in Capital Assets

A summary of changes in capital assets for the year ending December 31, 2025, is as follows:

	Balance 12/31/2024	Additions	Transfers/ Deletions	Balance 12/31/2025
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 1,800,074	\$ 60,000	\$ -	\$ 1,860,074
Construction in Progress	532,970	538,950	(288,271)	783,649
Total Capital Assets, not being Depreciated	2,333,044	598,950	(288,271)	2,643,723
Capital Assets, being Depreciated:				
Buildings	839,262	-	-	839,262
Improvements Other Than Buildings	12,365,225	-	-	12,365,225
Machinery and Equipment	1,932,309	78,135	(5,000)	2,005,444
Total Capital Assets, being Depreciated	15,136,796	78,135	(5,000)	15,209,931
Less Accumulated Depreciation for:				
Buildings	572,202	16,896	-	589,098
Improvements Other Than Buildings	6,827,847	601,195	-	7,429,042
Machinery and Equipment	1,473,976	76,551	(5,000)	1,545,527
Total Accumulated Depreciation	8,874,025	694,642	(5,000)	9,563,667
Total Governmental Activities Capital Assets, being Depreciated, Net	6,262,771	(616,507)	-	5,646,264
Total Governmental Capital Assets, Net	\$ 8,595,815	\$ (17,557)	\$ (288,271)	\$ 8,289,987

Depreciation expense was charged to functions as follows:

Public Works	\$ 439,286
Culture and Recreation	232,044
General Government	23,312
Total Depreciation Expense - Governmental	\$ 694,642

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(5) Changes in Capital Assets

	Balance 12/31/2024	Additions	Transfers/ Deletions	Balance 12/31/2025
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 146,395	\$ -	\$ -	\$ 146,395
Construction in Progress	16,454,564	1,605,551	(17,932,500)	127,615
Total Capital Assets, not being Depreciated	16,600,959	1,605,551	(17,932,500)	274,010
Capital Assets, being Depreciated:				
Buildings	2,752,899	-	2,575,154	5,328,053
Improvements Other Than Buildings	16,403,070	222,489	15,348,226	31,973,785
Machinery and Equipment	1,928,767	8,075	8,208	1,945,050
Total Capital Assets, being Depreciated	21,084,736	230,564	17,931,588	39,246,888
Less Accumulated Depreciation for:				
Buildings	1,215,852	90,853	-	1,306,705
Improvements Other Than Buildings	8,198,708	385,805	-	8,584,513
Machinery and Equipment	1,754,220	66,172	-	1,820,392
Total Accumulated Depreciation	11,168,780	542,830	-	11,711,610
Total Business-Type Activities Capital Assets, being Depreciated, Net				
	9,915,956	(312,266)	17,931,588	27,535,278
Total Business-Type Capital Assets, Net	\$ 26,516,915	\$ 1,293,285	\$ (912)	\$ 27,809,288

Depreciation expense was charged to functions as follows:

Sewer	\$ 323,183
Water	219,647
Total Depreciation Expense - Business-Type	\$ 542,830

As of December 31, 2025, there are approximately \$4,300,000 of commitments associated with construction projects in progress. Completion of such projects will be funded through the Water Fund, Sewer Fund, and Solid Waste Fund.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(6) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2025:

	Balance 12/31/2024	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2025	Due Within One Year
Primary Government:					
Governmental Activities:					
TIF #2 - Stonehill	\$ 1,569,901	\$ -	\$ -	\$ 1,569,901	\$ 1,569,901
Accrued Interest - TIF #2	1,297,705	186,545	186,640	1,297,610	1,297,610
TIF #4 - Downtown (2011 Bonds)	121,929	-	121,929	-	-
Compensated Absences*	55,710	7,180	-	62,890	62,890
Total Governmental Activities	3,045,245	193,725	308,569	2,930,401	2,930,401
Business-Type Activities:					
2020 Dacotah Water Revenue Bond	1,320,261	-	73,343	1,246,918	74,607
2012 SRF Sewer Revenue Bond	521,660	-	46,782	474,878	48,201
2021 SRF Sewer Revenue Bond	1,493,674	-	38,126	1,455,548	38,942
2022 SRF Sewer Revenue Bond	4,832,051	-	116,484	4,715,567	118,979
2023 SRF Sewer Revenue Bond	1,381,719	2,158,769	1,187,323	2,353,165	-
Compensated Absences*	73,498	12,706	-	86,204	86,204
	9,622,863	2,171,475	1,462,058	10,332,280	366,933
Total Primary Government	\$ 12,668,108	\$ 2,365,200	\$ 1,770,627	\$ 13,262,681	\$ 3,297,334

* The amount included in the earned/borrowings column for the compensated absences liability is a net change.

Tax Increment Financing Obligations

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such funds shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

During the year ended December 31, 2025, property tax revenues were \$165,854, \$146,827, and \$2,061 for TIFs #2, #4, and #6, respectively. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$187,074 for the year ended December 31, 2025.

Business-type Activities

The City has pledged future revenues of the Water and Sewer Funds for the retirement of debt issuances associated with those funds through the maturity dates listed below. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(6) Long-Term Debt

Business-type Activities

Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year excluding the amount refinanced as long-term debt.

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current Year Principal and Interest	\$ 103,244	\$ 415,614
Pledged Revenue	777,895	1,199,754

The City is required to comply with various debt covenants on Sewer Revenue Bonds. At December 31, 2025, the City was not in compliance with the debt coverage ratio requirement for the 2022 SRF Sewer Revenue debt, and a formal waiver has not been obtained. The applicable state agency is aware of the deficiency and has no intention to call the debt due before its original maturity date. As such, the balances are reported based on original agreements.

Long-term debt at December 31, 2025, is comprised of the following:

Revenue Bonds

2020 Water Revenue Bond, matures in April 2040, interest at 2.00 percent, due in monthly installments of \$8,338. Financed through the Water Fund.	\$ 1,246,918
Series 2012 SRF Sewer Revenue Bonds, matures in July 2034, interest at 3.00 percent, due in quarterly installments of \$15,477. Financed through the Sewer Fund.	474,878
Series 2021 SRF Sewer Revenue Bonds, matures in August 2053, interest at 1.625 percent, due in quarterly installments of \$17,391. Financed through the Sewer Fund.	1,455,548
Series 2022 SRF Sewer Revenue Bonds, matures in October 2054, interest at 2.125 percent, due in quarterly installments of \$54,560. Financed through the Sewer Fund.	4,715,567
Series 2023 SRF Sewer Revenue Bonds, borrowings up to \$5,596,000, matures 30 years after initial loan amortization date, interest at 3.25 percent, due in quarterly installments. Financed through the Sewer Fund.	2,353,165
Total Revenue Bonds	10,246,076

Tax Increment Financing Obligations

TIF #2, including interest at 9.00 percent, due in varying installments within 30 days of property tax collection from the county through 2026. Financed through the TIF Debt Service Fund.	1,569,901
Total Tax Increment Financing Obligations	1,569,901

Compensated Absences

General Fund	62,890
Water Fund	43,102
Sewer Fund	43,102
Total Compensated Absences	149,094

Accrued Interest (TIF #2)	1,297,610
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Total Long-Term Debt	\$ 13,262,681
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CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(6) Long-Term Debt

The annual requirements to amortize long-term debt outstanding as of December 31, 2025, except for compensated absences and accrued interest on TIF #2, are as follows:

	Revenue Bonds		(a) TIF Obligations		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2026	173,306	280,729	1,297,610	1,569,901	1,470,916	1,850,630
2027	166,613	287,422	-	-	166,613	287,422
2028	159,756	294,279	-	-	159,756	294,279
2029	152,734	301,301	-	-	152,734	301,301
2030	154,755	303,439	-	-	154,755	303,439
2031-2035	668,103	1,555,879	-	-	668,103	1,555,879
2036-2040	460,190	1,457,930	-	-	460,190	1,457,930
2041-2045	306,416	1,132,606	-	-	306,416	1,132,606
2046-2050	179,806	1,259,236	-	-	179,806	1,259,236
2051-2055	44,154	1,020,090	-	-	44,154	1,020,090
2023 SRF (b)	-	2,353,165	-	-	-	2,353,165
Total	\$ 2,465,833	\$ 10,246,076	\$ 1,297,610	\$ 1,569,901	\$ 3,763,443	\$ 11,815,977

(a) TIF Obligation maturities are based on projected future property tax increments. Actual repayments will vary dependent on property tax increments received.

Because the TIF Obligations expire in 2026, all remaining principal outstanding and all related interest expected to become due through the statutory expiration date are presented as current on the maturity schedule.

(b) Loan amortization schedule to be determined when financed project is complete.

(7) Pension Plan

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is 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. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has four different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(7) Pension Plan

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 Cost-of-Living Adjustment (COLA) process. At each valuation date:

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

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent. All benefits except those depending on the Member’s Accumulated Contributions are annually increased by COLA.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The City’s share of contributions to the SDRS for the fiscal years ended December 31, 2025, 2024, and 2023 were \$61,388, \$52,181, and \$48,403, respectively, equal to the required contributions each year.

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

At June 30, 2025, SDRS is 100.1 percent 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 City as of June 30, 2025 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 2,767,051	\$ 2,484,518	\$ 5,251,569
Less: Proportionate Share of Total Pension Liability	(2,765,510)	(2,483,135)	(5,248,645)
Proportionate Share of Net Pension Asset	\$ 1,541	\$ 1,383	\$ 2,924

At December 31, 2025, the City reported an asset of \$2,924 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2025, and the total pension asset used to calculate the net pension asset was based on a projection of the City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2025, the City’s proportion was 0.0343880 percent, which is an increase of 0.0033890 percent from its proportion measured as of June 30, 2024.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(7) Pension Plan

For the year ended December 31, 2025, the City recognized pension revenue of \$1,217. At December 31, 2025, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 100,135	\$ -
Changes in Assumption	-	(155,249)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	142,503	-
City Contributions Subsequent to the Measurement Date	31,389	-
Total	\$ 274,027	(155,249)

Deferred outflow of resources includes \$31,389 resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension asset in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2026	\$ 67,573
2027	7,331
2028	4,675
2029	7,810
	<u>\$ 87,389</u>

Actuarial Assumptions:

The total pension asset in the June 30, 2025, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66 percent at entry to 3.15 percent after 25 years of service
Investment Rate of Return	6.50 percent, net of pension plan investment expense. This is composed of an average inflation rate of 2.50 percent and real returns of 4.00 percent
Future COLAs	1.56 percent

Mortality Rates

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

Active and Terminated Vested Members:

- Teachers, Certified Regents, and Judicial: PubT-2010
- Other Class A Members: PubG-2010
- Public Safety Members: PubS-2010

Retired Members:

- Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
- Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
- Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:

- PubG-2010 contingent survivor mortality table

Disabled Members:

- Public Safety: PubS-2010 disabled member mortality table
- Others: PubG-2010 disabled member mortality table

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(7) Pension Plan

Actuarial Assumptions:

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2021.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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, 2025 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	2.3%
High Yield Debt	7.0%	2.9%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
	100.0%	

Discount Rate:

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

Sensitivity of Asset to Changes in the Discount Rate:

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

	1% Decrease	Current Discount Rate	1% Increase
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 716,794	\$ (2,924)	\$ (592,547)

Pension Plan Fiduciary Net Position:

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

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025**

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft; damage or destruction of assets; errors or omissions; injuries to employees; and natural disasters. During the year ending December 31, 2025, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City'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 City. The City pays a Members' Annual Operating Contribution, to provide liability coverage, under a claims-made policy and premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, vehicle coverage, wrongful acts, and errors and omissions of public officials.

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

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the 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 member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to the pool to provide worker's 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 of \$2,000,000 per incident.

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

Unemployment Benefits:

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

OTHER REPORTS



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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*

City Council
City of Custer
Custer, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Custer (the City) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 5, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2025-001 and #2025-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

City Council

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 City'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 City'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.



KETEL THORSTENSON, LLP
Certified Public Accountants

May 5, 2026

CITY OF CUSTER

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2025**

MATERIAL WEAKNESS

FINDING #2025-001: Financial Statement Preparation

Condition and Cause: As a matter of practicality and efficiency, we have assisted in drafting the financial statements, in both form and content, based on information provided by management during the audit.

Criteria and Effect: Management and those charged with governance are ultimately responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework. The auditor's responsibility for the financial statements is to express an opinion on them based on the audit evidence obtained.

Repeat Finding from Prior Year: Yes, prior year Finding #2024-001.

Recommendation: Management and governance should review the financial statements for accuracy of account balances and context of note disclosures. Management and governance should inquire of the auditors about any balances or disclosures which management does not understand or cannot reconcile to internal records prior to signing the management representation letter.

Response/Corrective Action Plan: The City agrees with the above Finding. See Corrective Action Plan.

FINDING #2025-002: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed several audit adjustments. Adjustments included:

- Recording pension activity.
- Adjusting grant funding revenue and receivable.

Criteria and Effect: These adjustments were not identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Repeat Finding from Prior Year: No.

Recommendation: We recommend the City's operations be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year.

Response/Corrective Action Plan: The City agrees with the above Finding. See Corrective Action Plan.

MANAGEMENT RESPONSE



622 Crook Street
Custer, SD 57730

Laurie Woodward
Finance Officer

Phone: (605) 673-4824
Fax: (605) 673-2411

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2025**

The City of Custer respectfully submits the following summary schedule of prior audit findings from the December 31, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2025 Schedule of Findings.

#2024-001 FINDING: Financial Statement Preparation

Status: It is more cost effective for the City to hire Ketel Thorstenson, LLP (KT), a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. The City has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: Management is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements prepared by the auditors. The finding will be repeated in 2025, see Corrective Action Plan.



622 Crook Street
Custer, SD 57730

Laurie Woodward
Finance Officer

Phone: (605) 673-4824
Fax: (605) 673-2411

**CORRECTIVE ACTION PLAN
DECEMBER 31, 2025**

City of Custer respectfully submits the following corrective action plan regarding findings from the December 31, 2025 Schedule of Findings. The 2025 findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#2025-001 FINDING: Financial Statement Preparation

Responsible Individuals: Laurie Woodward, Finance Officer

Corrective Action Plan: Management of the City has reviewed the financial statements prepared by Ketel Thorstenson, LLP. The financial statements have been compared and reconciled to the internal records maintained by the City. Management and governance has been given adequate opportunity to ask questions regarding the financial statements and note disclosures and have received sufficient responses from the auditors prior to final publication of the audited financial statements. Management is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements.

Anticipated Completion Date: Ongoing

#2025-002 FINDING: Audit Adjustments

Responsible Individuals: Laurie Woodward, Finance Officer

Corrective Action Plan: Year-end entries will be reviewed to ensure they are posted properly.

Anticipated Completion Date: Ongoing