



**CITY OF CUSTER**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2019



**Ketel Thorstenson, LLP**  
Certified Public Accountants/Business & Personal Consultants

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**CITY OF CUSTER**

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Custer  
Custer, South Dakota

### **Report on the Financial Statements**

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

City Council

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***Other Matters - Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 13, budgetary comparison information on pages 48 through 51, pension information on pages 52 and 53, and notes to required supplementary information on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2020, 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 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 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 4, 2020

## **CITY OF CUSTER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019**

This section of the City of Custer (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended December 31, 2019. Please read it in conjunction with the City's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

The City's net position from governmental and business-type activities increased by \$374,288, primarily due to decrease in general fund expenditures.

During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$3,772,391, and the governmental program expenditures were \$3,268,384.

The City's proprietary funds' expenses exceeded revenues by (\$129,719) primarily due to water revenue being down and sewer professional fees expenditures being high.

The general fund reported a \$902,521 current year increase due to expenditures being down primarily due to the lack of capital improvement expenditures.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has three proprietary funds – the Water Fund, the Sewer Fund, and the Solid Waste Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**CITY OF CUSTER**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2019**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The figure below summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

	<b>Government-wide Statements</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
<b>Scope</b>	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems
<b>Required Financial Statements</b>	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/ Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<b>Type of Inflow/ Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## **CITY OF CUSTER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) DECEMBER 31, 2019**

#### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

##### Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

Increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City, you need to consider additional non-financial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

**Governmental Activities** -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state grants and interest earnings finance most of these activities.

**Business-type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water, sewer, and solid waste program are included here.

##### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

**Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

**Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

**CITY OF CUSTER**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2019**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The City's combined net position increased by 1.77 percent between 2018 and 2019 – increasing by \$374,288.

<b>Statement of Net Position</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2018	2019	2018	2019	2018	2019
Current & Other Assets	\$ 5,606,893	\$ <b>6,592,753</b>	\$ 2,465,610	\$ <b>2,707,438</b>	\$ 8,072,503	\$ <b>9,300,191</b>
Capital Assets	9,228,149	<b>8,855,412</b>	9,968,950	<b>9,537,987</b>	19,197,099	<b>18,393,399</b>
<b>Total Assets</b>	<b>\$ 14,835,042</b>	<b>\$ 15,448,165</b>	<b>\$ 12,434,560</b>	<b>\$ 12,245,425</b>	<b>\$ 27,269,602</b>	<b>\$ 27,693,590</b>
<b>Pension Related Deferred</b>						
Outflows	\$ 149,197	\$ <b>44,870</b>	\$ 28,200	\$ <b>38,319</b>	\$ 177,397	\$ <b>83,189</b>
Long-Term Debt	\$ 3,538,166	\$ <b>3,535,911</b>	\$ 2,612,651	\$ <b>2,543,389</b>	\$ 6,150,817	\$ <b>6,079,300</b>
Other Liabilities	42,761	<b>49,805</b>	57,543	<b>77,508</b>	100,304	<b>127,313</b>
<b>Total Liabilities</b>	<b>\$ 3,580,927</b>	<b>\$ 3,585,716</b>	<b>\$ 2,670,194</b>	<b>\$ 2,620,897</b>	<b>\$ 6,251,121</b>	<b>\$ 6,206,613</b>
<b>Pension Related Deferred</b>						
Inflows	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Position:</b>						
<b>Net Investment in</b>						
Capital Assets	\$ 5,738,142	\$ <b>5,370,094</b>	\$ 7,424,337	\$ <b>7,067,041</b>	\$ 13,162,479	\$ <b>12,437,135</b>
Restricted	496,843	<b>452,131</b>	135,443	<b>146,825</b>	632,286	<b>598,956</b>
Unrestricted	5,168,327	<b>6,085,094</b>	2,232,786	<b>2,448,981</b>	7,401,113	<b>8,534,075</b>
<b>Total Net Position</b>	<b>\$ 11,403,312</b>	<b>\$ 11,907,319</b>	<b>\$ 9,792,566</b>	<b>\$ 9,662,847</b>	<b>\$ 21,195,878</b>	<b>\$ 21,570,166</b>
Beginning Net Position	\$ 10,275,408	\$ <b>11,403,312</b>	\$ 9,898,922	\$ <b>9,792,566</b>	\$ 20,174,330	\$ <b>21,195,878</b>
Change in Net Position	1,127,904	<b>504,007</b>	(106,356)	<b>(129,719)</b>	1,021,548	<b>374,288</b>
<b>Percentage of Change</b>						
Net Position	10.98%	<b>4.42%</b>	-1.07%	<b>-1.32%</b>	5.06%	<b>1.77%</b>

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the City have been reported in this manner on the Statement of Net Position. The difference between the City's assets and liabilities is its net position.

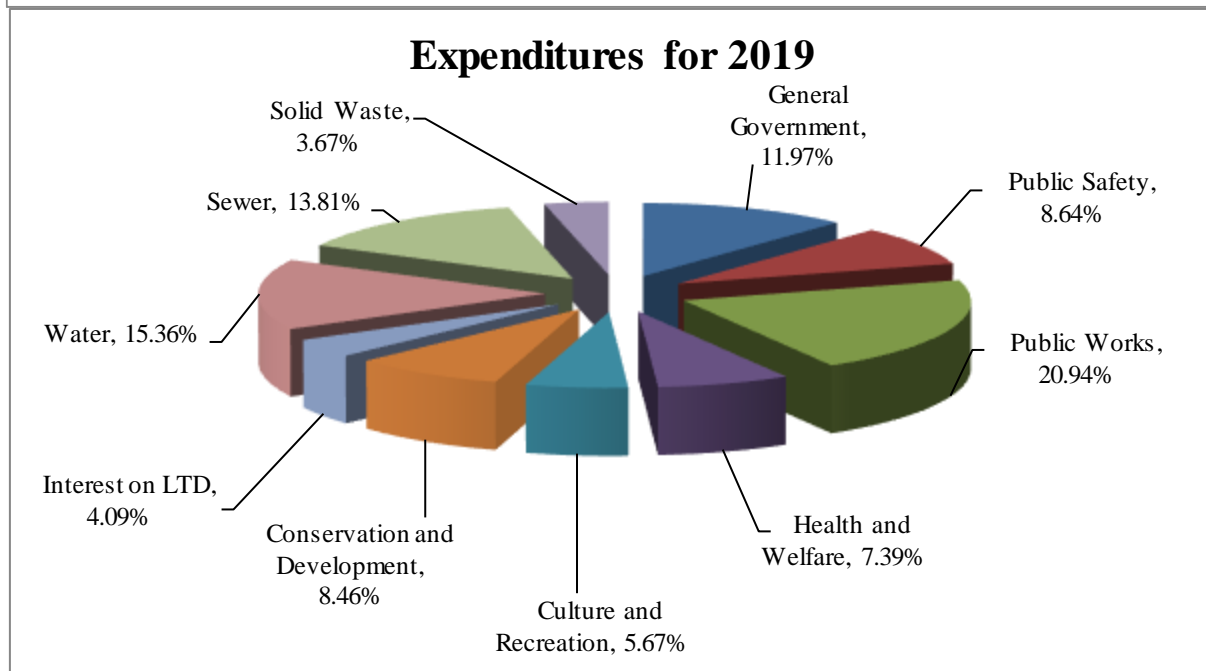
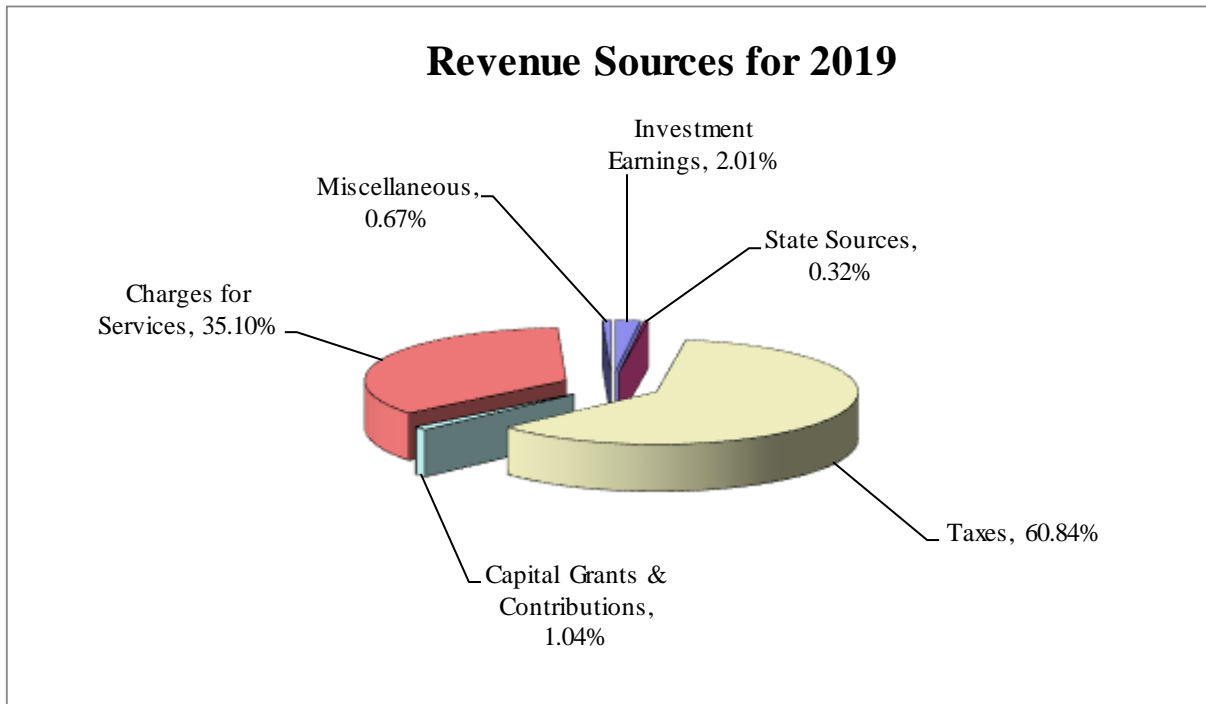


**CITY OF CUSTER**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2019**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

The City's revenues totaled \$5,240,862. See below for various sources of revenue. The total revenue and expenditures increased. The City's expenses cover a range of services, including public works, general government, and utility services for water, sewer, and sanitation.



CITY OF CUSTER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2019

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Statement of Activities						
	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2018	2019	2018	2019	2018	2019
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 434,958	\$ 410,808	\$ 1,453,907	\$ 1,428,797	\$ 1,888,865	\$ 1,839,605
Capital Grants and Contributions	694,243	54,767	-	-	694,243	54,767
Operating Grants and Contributions	10,000	-	-	-	10,000	-
<i>General Revenues</i>						
Taxes	3,169,502	3,188,691	-	-	3,169,502	3,188,691
Revenue State Sources	15,735	16,737	-	-	15,735	16,737
Unrestricted Investment Earnings	33,125	66,413	12,627	39,674	45,752	106,087
Other	7,997	34,975	25,000	-	32,997	34,975
<b>Total Revenues</b>	<b>\$ 4,365,560</b>	<b>\$ 3,772,391</b>	<b>\$ 1,491,534</b>	<b>\$ 1,468,471</b>	<b>\$ 5,857,094</b>	<b>\$ 5,240,862</b>
<b>Expenses</b>						
General Government	\$ 556,487	\$ 582,385	\$ -	\$ -	\$ 556,487	\$ 582,385
Public Safety	379,835	420,317	-	-	379,835	420,317
Public Works	941,614	1,018,968	-	-	941,614	1,018,968
Health and Welfare	359,065	359,059	-	-	359,065	359,059
Culture and Recreation	294,704	276,054	-	-	294,704	276,054
Conservation and Development	473,882	411,893	-	-	473,882	411,893
Interest on Long-Term Debt	232,069	199,708	-	-	232,069	199,708
Water Services	-	-	736,658	747,342	736,658	747,342
Sewer Services	-	-	683,172	672,131	683,172	672,131
Solid Waste	-	-	178,060	178,717	178,060	178,717
<b>Total Expenses</b>	<b>\$ 3,237,656</b>	<b>\$ 3,268,384</b>	<b>\$ 1,597,890</b>	<b>\$ 1,598,190</b>	<b>\$ 4,835,546</b>	<b>\$ 4,866,574</b>
<b>Transfers</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Increase (Decrease) in Net Position</b>						
	\$ 1,127,904	\$ 504,007	\$ (106,356)	\$ (129,719)	\$ 1,021,548	\$ 374,288
<b>Net Position - Beginning</b>	<b>\$ 10,275,408</b>	<b>\$ 11,403,312</b>	<b>\$ 9,898,922</b>	<b>\$ 9,792,566</b>	<b>\$ 20,174,330</b>	<b>\$ 21,195,878</b>
<b>Net Position - Ending</b>	<b>\$ 11,403,312</b>	<b>\$ 11,907,319</b>	<b>\$ 9,792,566</b>	<b>\$ 9,662,847</b>	<b>\$ 21,195,878</b>	<b>\$ 21,570,166</b>

**CITY OF CUSTER**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2019**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)**

**Governmental Activities**

Revenues of the City's governmental activities exceeded expenses by \$504,007. Factors contributing to these results included:

- No large capital improvement expenditures during 2019.

**Business-Type Activities**

Expenses of the City's business-type activities exceeded revenues by (\$129,719). The main factor contributing to the increase in expenses is an increase in professional fees due to the wastewater study cost.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and three business-type funds.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the City Council revised the City budget one time. The amendments fall into two categories:

- Supplemental appropriations approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations by contingency transfer to prevent budget overruns.

**CITY OF CUSTER**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2019**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2019, the City had invested \$18,393,399 in a broad range of capital assets, including land, buildings, and various machinery and equipment. This amount represents a net decrease of (\$803,700) due to depreciation.

<b>Capital Assets (Net of Depreciation)</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2018	2019	2018	2019
Land	\$ 1,412,978	\$ <b>1,412,978</b>	\$ 146,395	\$ <b>146,395</b>
Buildings	1,337,473	<b>1,310,778</b>	535,076	<b>528,599</b>
Improvements	5,359,504	<b>4,894,179</b>	8,743,151	<b>8,401,330</b>
Machinery and Equipment	314,224	<b>229,951</b>	544,328	<b>461,663</b>
Construction Work in Progress	803,970	<b>1,007,526</b>	-	-
<b>Total</b>	<b>\$ 9,228,149</b>	<b>\$ 8,855,412</b>	<b>\$ 9,968,950</b>	<b>\$ 9,537,987</b>

**LONG-TERM DEBT**

By the end of 2019, the City had \$6,079,300 in revenue bonds, TIF obligations, and compensated absences. This is a decrease of \$71,517, due to payments made during the year.

<b>Outstanding Debt and Obligations</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2018	2019	2018	2019
Compensated Absences	\$ 48,159	\$ <b>50,593</b>	\$ 68,038	\$ <b>72,443</b>
TIF #2 - Stonehill	1,569,901	<b>1,569,901</b>	-	-
Accrued Interest - TIF #2	919,911	<b>1,013,919</b>	-	-
TIF #4 - Downtown	771,155	<b>693,958</b>	-	-
TIF #5 - Pamida	229,040	<b>207,540</b>	-	-
Water Revenue Bonds	-	-	1,769,814	<b>1,735,247</b>
Sewer Revenue Bonds	-	-	774,799	<b>735,699</b>
<b>Total</b>	<b>\$ 3,538,166</b>	<b>\$ 3,535,911</b>	<b>\$ 2,612,651</b>	<b>\$ 2,543,389</b>

## **CITY OF CUSTER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONCLUDED) DECEMBER 31, 2019**

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's current economic position has shown continued improvement. The City did experience an increase in total property valuation of \$11,753,476, up 8.3 percent from the prior year, thus allowing an increase in property tax revenue by approximately \$62,000. The increase in property valuation also allows the City maintain property revenue with a small decrease to the property tax mill levy from \$5.95 per \$1,000 assessed valuation to \$5.84. Under the state-mandated property tax freeze, property taxes from one year to the next may increase three percent or an amount based on the CPI, whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City has experienced an increase in sales tax of 2.5 percent over the prior year and has budgeted for a \$3,000 decrease in sales tax revenue from the 2019 actual for the next year.

The City's adopted General Fund budget for the next fiscal year will increase to \$6,689,364. The largest portion of this increase is due to over 4 million budgeted for capital improvements.

The City's adopted business-type budget for the next fiscal year will increase to \$1,958,321. This increase is due to general water and wastewater expenditure increases.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Custer Finance Office, 622 Crook Street, Custer, SD 57730.

## CITY OF CUSTER

STATEMENT OF NET POSITION  
DECEMBER 31, 2019

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and Investments (Note 2)	\$ 6,270,017	\$ 2,420,373	\$ 8,690,390
Restricted Investments (Notes 3 and 7)	-	106,920	106,920
Receivables	259,173	178,559	437,732
Other Assets (Note 9)	61,706	-	61,706
Net Pension Asset (Note 8)	1,857	1,586	3,443
Capital Assets (Note 6):			
Land and Construction in Progress	2,420,504	146,395	2,566,899
Other Capital Assets, Net of Depreciation	6,434,908	9,391,592	15,826,500
<b>TOTAL ASSETS</b>	<b>15,448,165</b>	<b>12,245,425</b>	<b>27,693,590</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows of Resources (Notes 4 and 8)	44,870	38,319	83,189
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 15,493,035</b>	<b>\$ 12,283,744</b>	<b>\$ 27,776,779</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 31,350	\$ 28,007	\$ 59,357
Other Current Liabilities	18,455	49,501	67,956
Long-Term Liabilities (Note 7):			
Due Within One Year	226,309	148,408	374,717
Due in More Than One Year	3,309,602	2,394,981	5,704,583
<b>TOTAL LIABILITIES</b>	<b>3,585,716</b>	<b>2,620,897</b>	<b>6,206,613</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	5,370,094	7,067,041	12,437,135
Restricted for:			
Debt Service	-	106,920	106,920
Business Improvement District	33,711	-	33,711
Promoting the City	206,226	-	206,226
Jackl Drainage Improvements	9,988	-	9,988
SDPAA (Note 9)	42,904	-	42,904
SDRS Pension (Note 8)	46,727	39,905	86,632
Permanently Restricted Purposes:			
Expendable	62,575	-	62,575
Nonexpendable	50,000	-	50,000
Unrestricted	6,085,094	2,448,981	8,534,075
<b>TOTAL NET POSITION</b>	<b>11,907,319</b>	<b>9,662,847</b>	<b>21,570,166</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 15,493,035</b>	<b>\$ 12,283,744</b>	<b>\$ 27,776,779</b>

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

CITY OF CUSTER

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Expenses	--- Program Revenues ---		Net (Expense) Revenue and ----- Changes in Net Position -----			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 582,385	\$ 104,233	\$ -	\$ -	\$ (478,152)	\$ -	\$ (478,152)
Public Safety	420,317	1,008	-	-	(419,309)	-	(419,309)
Public Works	1,018,968	95,014	-	-	(923,954)	-	(923,954)
Health and Welfare	359,059	-	-	-	(359,059)	-	(359,059)
Culture and Recreation	276,054	4,450	-	54,767	(216,837)	-	(216,837)
Conservation and Development	411,893	-	-	-	(411,893)	-	(411,893)
Miscellaneous	-	206,103	-	-	206,103	-	206,103
Interest on Long-Term Debt	199,708	-	-	-	(199,708)	-	(199,708)
<b>Total Governmental Activities</b>	<b>3,268,384</b>	<b>410,808</b>	<b>-</b>	<b>54,767</b>	<b>(2,802,809)</b>	<b>-</b>	<b>(2,802,809)</b>
Business-Type Activities:							
Water	747,342	625,942	-	-	-	(121,400)	(121,400)
Sewer	672,131	609,227	-	-	-	(62,904)	(62,904)
Solid Waste	178,717	193,628	-	-	-	14,911	14,911
<b>Total Business-Type Activities</b>	<b>1,598,190</b>	<b>1,428,797</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(169,393)</b>	<b>(169,393)</b>
<b>Total Primary Government</b>	<b>\$ 4,866,574</b>	<b>\$ 1,839,605</b>	<b>\$ -</b>	<b>\$ 54,767</b>	<b>(2,802,809)</b>	<b>(169,393)</b>	<b>(2,972,202)</b>
General Revenues:							
Taxes:							
Property Taxes					1,146,058	-	1,146,058
Sales Taxes					2,042,633	-	2,042,633
State Shared Revenue					16,737	-	16,737
Unrestricted Investment Earnings					66,413	39,674	106,087
Miscellaneous Revenue					34,975	-	34,975
<b>Total General Revenue</b>					<b>3,306,816</b>	<b>39,674</b>	<b>3,346,490</b>
<b>Change in Net Position</b>					<b>504,007</b>	<b>(129,719)</b>	<b>374,288</b>
Net Position, Beginning					11,403,312	9,792,566	21,195,878
<b>Net Position, Ending</b>					<b>\$ 11,907,319</b>	<b>\$ 9,662,847</b>	<b>\$ 21,570,166</b>

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

**CITY OF CUSTER**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2019**

	<b>General Fund</b>	<b>Third Penny (Promotion) Fund</b>	<b>BID Fund</b>
<b>Assets</b>			
101 Cash and Cash Equivalents (Note 2)	\$ 4,183,736	\$ 209,668	\$ 22,673
105 Investments (Note 2)	1,741,813	-	-
108 Property Taxes Receivable - Delinquent	85,013	-	-
110 Sales Taxes Receivable	117,016	7,359	-
115 Accounts Receivable	34,410	-	9,359
135 Interest Receivable	5,568	-	-
154.1 Restricted Deposits (Note 9)	42,904	-	-
155 Prepaid Expenses	17,123	-	1,679
<b>Total Assets</b>	<b>\$ 6,227,583</b>	<b>\$ 217,027</b>	<b>\$ 33,711</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ 20,549	\$ 10,801	\$ -
216 Accrued Wages Payable	14,997	-	-
223 Unearned Revenue	500	-	-
<b>Total Liabilities</b>	<b>36,046</b>	<b>10,801</b>	<b>-</b>
<i>Deferred Inflows of Resources (Note 4)</i>			
245 Unavailable Revenue - Property Taxes	69,529	-	-
<i>Fund Balances</i>			
<i>263 Nonspendable:</i>			
263.51 Perpetual Care Cemetery	-	-	-
263.02 Prepaid Expenses	17,123	-	1,679
263.49 SDPAA Reserve (Note 9)	42,904	-	-
<i>264 Restricted:</i>			
264.03 Perpetual Care Cemetery	-	-	-
264.04 Promoting the City	-	206,226	-
264.09 Business Improvement District	-	-	32,032
264.99 Jackl Drainage Improvements	9,988	-	-
<i>265 Committed:</i>			
265.99 Capital Reserve Fund	250,000	-	-
<i>266 Assigned:</i>			
266.01 Subsequent Year's Budget	3,575,563	-	-
266.02 Hospital Sales Tax	1,623,417	-	-
267 Unassigned	603,013	-	-
<b>Total Fund Balances</b>	<b>6,122,008</b>	<b>206,226</b>	<b>33,711</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 6,227,583</b>	<b>\$ 217,027</b>	<b>\$ 33,711</b>

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



TIF Debt Service Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ -	\$ 29,140	\$ 4,445,217
-	82,987	1,824,800
-	-	85,013
-	-	124,375
-	-	43,769
-	448	6,016
-	-	42,904
-	-	18,802
<b>\$ -</b>	<b>\$ 112,575</b>	<b>\$ 6,590,896</b>

\$ -	\$ -	\$ 31,350
-	-	14,997
-	-	500
-	-	46,847

-	-	69,529
---	---	--------

-	50,000	50,000
-	-	18,802
-	-	42,904
-	62,575	62,575
-	-	206,226
-	-	32,032
-	-	9,988
-	-	250,000
-	-	3,575,563
-	-	1,623,417
-	-	603,013
-	112,575	6,474,520

<b>\$ -</b>	<b>\$ 112,575</b>	<b>\$ 6,590,896</b>
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**CITY OF CUSTER**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
GOVERNMENT-WIDE STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

Total Fund Balances - Governmental Funds \$ 6,474,520

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. 8,855,412

Long-term liabilities are not due and payable in the current period and therefore  
not reported in the funds. (3,535,911)

Net pension asset reported in governmental activities is not an available financial  
resource and therefore is not reported in the funds. 1,857

Pension related deferred outflows are components of pension asset and therefore  
are not reported in the funds. 44,870

Accrued interest is not due and payable in the current period and therefore is  
not reported in the funds. (2,958)

Assets such as delinquent taxes receivable and grants receivable are not available  
to pay for current period expenditures and therefore are deferred in the funds. 69,529

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**Total Net Position - Governmental Funds \$ 11,907,319**

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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, 2019**

<b>Revenue</b>	<b>General Fund</b>	<b>Third Penny (Promotion) Fund</b>	<b>BID Fund</b>	<b>TIF Debt Service Fund</b>
<i>Taxes:</i>				
311 General Property Taxes	\$ 919,169	\$ -	\$ -	\$ 205,205
313 General Sales and Use Taxes	1,660,299	244,898	137,436	-
315 Amusement Taxes	204	-	-	-
319 Penalties and Interest on Delinquent Taxes	1,612	-	-	-
320 Licenses and Permits	87,094	-	-	-
<i>Intergovernmental Revenue:</i>				
State Shared Revenue:				
335.01 Bank Franchise Tax	3,176	-	-	-
335.03 Liquor Tax Reversion	13,561	-	-	-
335.04 Motor Vehicle Licenses (5%)	42,185	-	-	-
335.08 Local Government Highway and Bridge Fund	31,681	-	-	-
County Shared Revenue:				
338.02 County HBR Tax	3,991	-	-	-
<i>Charges for Goods and Services:</i>				
341 General Government	8,464	-	-	-
346 Culture and Recreation	4,450	-	-	-
348 Cemeteries	7,800	-	-	-
350 Fines and Forfeits	1,008	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	64,045	1,345	-	-
362 Rentals	6,175	-	-	-
367 Contributions and Donations from Private Sources	2,500	-	-	-
368 Liquor Operating Agreement Income	206,103	-	-	-
369 Other	15,750	-	-	-
<b>Total Revenue</b>	<b>3,079,267</b>	<b>246,243</b>	<b>137,436</b>	<b>205,205</b>

<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
\$ -	\$ 1,124,374
-	2,042,633
-	204
-	1,612
-	87,094
-	3,176
-	13,561
-	42,185
-	31,681
-	3,991
-	8,464
-	4,450
9,357	17,157
-	1,008
1,023	66,413
-	6,175
-	2,500
-	206,103
-	15,750
10,380	3,678,531

**CITY OF CUSTER**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>General Fund</b>	<b>Third Penny (Promotion) Fund</b>	<b>BID Fund</b>	<b>TIF Debt Service Fund</b>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	108,511	-	-	-
413 Elections	711	-	-	-
414 Financial Administration	140,268	-	-	-
419 Other	230,837	-	-	-
<i>Public Safety:</i>				
421 Police	389,817	-	-	-
422 Fire	30,500	-	-	-
<i>Public Works:</i>				
431 Highways and Streets	500,415	-	-	-
437 Cemeteries	35,890	-	-	-
<i>Health and Welfare:</i>				
444 Humane Society	12,059	-	-	-
447 Hospital Subsidy	347,000	-	-	-
<i>Culture and Recreation:</i>				
451 Custer Cruisin'	7,966	-	-	-
451 Swimming	34,293	-	-	-
452 Parks	122,455	-	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	72,000	201,918	137,975	-
470 Debt Service	-	-	-	205,205
485 Capital Outlay	167,513	-	-	-
<b>Total Expenditures</b>	<b>2,200,235</b>	<b>201,918</b>	<b>137,975</b>	<b>205,205</b>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	879,032	44,325	(539)	-
<b>Other Financing Sources</b>				
391 Sale of Municipal Property	23,489	-	-	-
<b>Net Change in Fund Balances</b>	<b>902,521</b>	<b>44,325</b>	<b>(539)</b>	<b>-</b>
Fund Balances - December 31, 2018	5,219,487	161,901	34,250	-
<b>Fund Balances - December 31, 2019</b>	<b>\$ 6,122,008</b>	<b>\$ 206,226</b>	<b>\$ 33,711</b>	<b>\$ -</b>

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

<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
-	108,511
-	711
-	140,268
-	230,837
-	389,817
-	30,500
-	500,415
-	35,890
-	12,059
-	347,000
-	7,966
-	34,293
-	122,455
-	411,893
-	205,205
-	167,513
-	<u>2,745,333</u>
10,380	933,198
-	<u>23,489</u>
10,380	956,687
102,195	<u>5,517,833</u>
<b>\$ 112,575</b>	<b>\$ 6,474,520</b>

**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, 2019**

Net Change in Fund Balances - Total Government Funds \$ 956,687

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	167,513
Depreciation Expense	(590,753)

Capital assets contributed to the City, which are included in the Statement of Activities.	54,767
--	--------

The governmental funds reflect proceeds from capital asset sales, if any, while the Statement of Activities reports a gain on sale or disposal of capital assets.	(4,264)
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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."	19,868
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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.	156,045
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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.	(151,356)
--	-----------

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	(2,434)
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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.	808
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Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds.	(102,874)
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**Change in Net Position of Governmental Activities \$ 504,007**

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

## CITY OF CUSTER

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2019

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
<b>Assets</b>				
<b>Current Assets</b>				
101 Cash and Cash Equivalents (Note 2)	\$ 455,641	\$ 265,923	\$ 82,682	\$ 804,246
105 Investments (Note 2)	390,370	1,149,967	75,790	1,616,127
115 Accounts Receivable	67,880	79,572	30,561	178,013
135 Interest Receivable	161	155	230	546
<b>Total Current Assets</b>	<b>914,052</b>	<b>1,495,617</b>	<b>189,263</b>	<b>2,598,932</b>
<b>Noncurrent Assets</b>				
107 Restricted Investments (Notes 3 and 7)	106,920	-	-	106,920
189 Net Pension Asset (Note 8)	798	788	-	1,586
Capital Assets (Note 6)				
160 Land	54,482	91,913	-	146,395
162 Buildings	946,815	570,305	-	1,517,120
163 Accumulated Depreciation (AD) - Buildings	(598,517)	(390,004)	-	(988,521)
164 Improvements Other Than Buildings	8,502,657	6,309,611	-	14,812,268
165 AD - Improvements Other Than Buildings	(3,467,100)	(2,943,838)	-	(6,410,938)
166 Machinery and Equipment	388,597	1,510,999	-	1,899,596
167 AD - Machinery and Equipment	(365,242)	(1,072,691)	-	(1,437,933)
<b>Total Noncurrent Assets</b>	<b>5,569,410</b>	<b>4,077,083</b>	<b>-</b>	<b>9,646,493</b>
<b>Total Assets</b>	<b>6,483,462</b>	<b>5,572,700</b>	<b>189,263</b>	<b>12,245,425</b>
<b>Deferred Outflows of Resources</b>				
196 Pension Related Deferred Outflows (Notes 4 and 8)	19,269	19,050	-	38,319
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 6,502,731</b>	<b>\$ 5,591,750</b>	<b>\$ 189,263</b>	<b>\$ 12,283,744</b>



	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Total Proprietary Funds</b>
<b>Liabilities and Net Position</b>				
<b>Current Liabilities</b>				
202 Accounts Payable	\$ 3,042	\$ 24,062	\$ 903	\$ 28,007
205 Current Portion of Long-Term Debt (Note 7)	35,677	40,288	-	75,965
215 Accrued Interest Payable	3,726	4,598	-	8,324
216 Accrued Wages	4,829	4,713	-	9,542
220 Customer Deposits	31,635	-	-	31,635
233 Accrued Leave Payable (Note 7)	35,994	36,449	-	72,443
<b>Total Current Liabilities</b>	<b>114,903</b>	<b>110,110</b>	<b>903</b>	<b>225,916</b>
<b>Long-Term Liabilities</b>				
237 Long-Term Debt, Net of Current Portion (Note 7)	1,699,570	695,411	-	2,394,981
<b>Total Liabilities</b>	<b>1,814,473</b>	<b>805,521</b>	<b>903</b>	<b>2,620,897</b>
<b>Net Position</b>				
253.1 Net Investment in Capital Assets	3,726,445	3,340,596	-	7,067,041
253.21 Restricted for Debt Service	106,920	-	-	106,920
235.29 Restricted for SDRS Pension (Note 8)	20,067	19,838	-	39,905
262.0 Unrestricted	834,826	1,425,795	188,360	2,448,981
<b>Total Net Position</b>	<b>4,688,258</b>	<b>4,786,229</b>	<b>188,360</b>	<b>9,662,847</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 6,502,731</b>	<b>\$ 5,591,750</b>	<b>\$ 189,263</b>	<b>\$ 12,283,744</b>

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

**CITY OF CUSTER**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Total Proprietary Funds</b>
<b>Operating Revenue</b>				
380 Charges for Goods and Services	\$ 625,942	\$ 609,227	\$ 193,628	\$ 1,428,797
<b>Operating Expenses</b>				
410 Personal Services	214,032	214,992	-	429,024
420 Other Current Expenses	229,735	208,647	178,717	617,099
457 Depreciation	230,965	226,544	-	457,509
<b>Total Operating Expenses</b>	<b>674,732</b>	<b>650,183</b>	<b>178,717</b>	<b>1,503,632</b>
<b>Operating Income (Loss)</b>	<b>(48,790)</b>	<b>(40,956)</b>	<b>14,911</b>	<b>(74,835)</b>
<b>Non-Operating Income (Expense)</b>				
361 Earnings on Deposits and Investments	12,334	26,268	1,072	39,674
470 Interest Expense	(72,610)	(21,948)	-	(94,558)
<b>Total Non-Operating Income (Expense)</b>	<b>(60,276)</b>	<b>4,320</b>	<b>1,072</b>	<b>(54,884)</b>
<b>Change in Net Position</b>	<b>(109,066)</b>	<b>(36,636)</b>	<b>15,983</b>	<b>(129,719)</b>
Net Position - December 31, 2018	4,797,324	4,822,865	172,377	9,792,566
<b>Net Position - December 31, 2019</b>	<b>\$ 4,688,258</b>	<b>\$ 4,786,229</b>	<b>\$ 188,360</b>	<b>\$ 9,662,847</b>

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, 2019

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
<b>Cash Flows from Operating Activities:</b>				
Receipts from Customers	\$ 619,098	\$ 603,493	\$ 192,954	\$ 1,415,545
Payments to Suppliers	(229,197)	(190,765)	(178,778)	(598,740)
Payments to Employees	(218,034)	(216,628)	-	(434,662)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>171,867</b>	<b>196,100</b>	<b>14,176</b>	<b>382,143</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Purchase of Capital Assets	(26,546)	-	-	(26,546)
Principal Paid on Capital Debt	(34,567)	(39,100)	-	(73,667)
Interest Paid	(72,684)	(22,807)	-	(95,491)
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(133,797)</b>	<b>(61,907)</b>	<b>-</b>	<b>(195,704)</b>
<b>Cash Flows Provided by Investing Activities:</b>				
Interest Received	12,370	29,372	1,071	42,813
<b>Change in Cash and Investments</b>	<b>50,440</b>	<b>163,565</b>	<b>15,247</b>	<b>229,252</b>
Cash and Investments - December 31, 2018	902,491	1,252,325	143,225	2,298,041
<b>Cash and Investments - December 31, 2019</b>	<b>\$ 952,931</b>	<b>\$ 1,415,890</b>	<b>\$ 158,472</b>	<b>\$ 2,527,293</b>
<b>Reconciliation of Operating Income to</b>				
<b>Net Cash Flows Provided by Operating Activities</b>				
Operating Income (Loss)	\$ (48,790)	\$ (40,956)	\$ 14,911	\$ (74,835)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:</i>				
Depreciation Expense	230,965	226,544	-	457,509
Change in Assets and Liabilities:				
Change in Receivables	(8,044)	(5,734)	(674)	(14,452)
Change in Pension Asset	(635)	(628)	-	(1,263)
Change in Pension Related Deferred Outflows	(6,254)	(3,865)	-	(10,119)
Change in Accounts Payable	538	17,882	(61)	18,359
Change in Accrued Wages	772	567	-	1,339
Change in Customer Deposits	1,200	-	-	1,200
Change in Accrued Leave Payable	2,115	2,290	-	4,405
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 171,867</b>	<b>\$ 196,100</b>	<b>\$ 14,176</b>	<b>\$ 382,143</b>

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

## **CITY OF CUSTER**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019**

#### **(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 (CONTINUED) DECEMBER 31, 2019

#### (1) Summary of Significant Accounting Policies (Continued)

##### Basis of Presentation (Continued)

###### *Fund Financial Statements (Continued):*

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, #4, and #5 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 9-31-18 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 are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**CITY OF CUSTER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(1) Summary of Significant Accounting Policies (Continued)**

**Basis of Presentation (Concluded)**

*Fund Financial Statements (Concluded):*

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 collection fund is a major fund.

Fiduciary Funds:

Fiduciary fund types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Fiduciary funds are never considered major funds. The City has no fiduciary funds.

**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.

## **CITY OF CUSTER**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019**

#### **(1) Summary of Significant Accounting Policies (Continued)**

##### **Measurement Focus and Basis of Accounting (Continued)**

###### *Basis of Accounting:*

###### Government-wide Financial Statements:

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

###### Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, 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, 2019, are property and sales tax.

##### **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.

##### **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.

###### 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 valued at their estimated fair 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.

**CITY OF CUSTER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(1) Summary of Significant Accounting Policies (Continued)**

**Capital Assets (Continued)**

Government-wide Financial Statements (Continued):

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.



## **CITY OF CUSTER**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019**

#### **(1) Summary of Significant Accounting Policies (Continued)**

##### **Long-Term Liabilities (Continued)**

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.

##### **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. Municipal contributions and net pension asset are recognized on an accrual basis of accounting.

##### **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.

## CITY OF CUSTER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019

#### (1) Summary of Significant Accounting Policies (Concluded)

##### Equity Classifications (Continued)

###### 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, 2019. 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. The Hospital Sales Tax Subsidy was established by the City Council when it passed Resolution #02-01-16A and is assigned for future funds (\$347,000 per year, plus subsequent year budget dollars, not to exceed \$4,000,000) to be set aside for the new Monumental Health building.

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.

##### Compensated Absences

Eligible employees earn sick leave and after ten years of employment are entitled to a payout percentage based on years of service upon termination. Eligible employees can earn vacation leave based on years of service, and will be paid upon termination, up to a maximum of 240 hours for end of year carry over.

##### Accounts Receivable

Included in utility accounts receivable at December 31, 2019, are unbilled accounts receivable totaling approximately \$39,000, \$41,000, and \$16,000 for the water, wastewater, and solid waste funds, respectively.

**CITY OF CUSTER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(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.

Investments – In General, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; 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 under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

Also, SDCL 4-5-9 requires investments to be in the physical custody of the City or deposited with any bank or trust account designated by the City 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, 2019, the City had the following investments:

Investment	Credit Rating	Maturity	Fair Value
Money Market	Unrated	N/A	\$ 539,104
U.S. Government Securities			
US Treasury Strips - 0%	AAA	1-2 years	319,665
US Treasury Notes - 1.125% - 2.375%	AAA	1-4 years	477,351
External Investment Pools:			
SDFIT	Unrated	N/A	255,307
			<u>1,591,427</u>
Nonnegotiable Certificates of Deposit			2,750,829
<b>Total Investments</b>			<b>\$ 4,342,256</b>

**CITY OF CUSTER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(2) Deposits and Investments (Continued)**

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.

*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. As of December 31, 2019, none of the City’s deposits were exposed to custodial credit risk. The bank balances at December 31, 2019 are as follows, excluding SDFIT:

	<u>Bank Balance</u>
Insured - FDIC	\$ 1,250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	6,022,228
<b>Total Deposits</b>	<b>\$ 7,272,228</b>

*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) Restricted Investments**

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Amount</u>	<u>Purpose:</u>
\$106,920	Water Fund Debt Service, by debt covenants (Note 7)

**(4) 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 consist of pension activity.

**CITY OF CUSTER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(4) Deferred Inflows and Outflows of Resources (Continued)**

In addition to liabilities, the governmental funds balance sheet 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 on the governmental funds balance sheet.

**(5) 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.

**(6) Changes in Capital Assets**

A summary of changes in capital assets for the year ending December 31, 2019, is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2018	Additions	Transfers/ Deletions	Balance 12/31/2019
Capital Assets, not being Depreciated:				
Land	\$ 1,412,978	\$ -	\$ -	\$ 1,412,978
Construction in Progress	803,970	203,556	-	1,007,526
<b>Total Capital Assets, not being Depreciated</b>	<b>2,216,948</b>	<b>203,556</b>	<b>-</b>	<b>2,420,504</b>
Capital Assets, being Depreciated:				
Buildings	1,983,854	11,965	-	1,995,819
Improvements Other Than Buildings	9,160,760	-	-	9,160,760
Machinery and Equipment	1,537,883	6,759	(61,680)	1,482,962
<b>Total Capital Assets, being Depreciated</b>	<b>12,682,497</b>	<b>18,724</b>	<b>(61,680)</b>	<b>12,639,541</b>
Less Accumulated Depreciation for:				
Buildings	646,381	38,660	-	685,041
Improvements Other Than Buildings	3,801,256	465,325	-	4,266,581
Machinery and Equipment	1,223,659	86,768	(57,416)	1,253,011
<b>Total Accumulated Depreciation</b>	<b>5,671,296</b>	<b>590,753</b>	<b>(57,416)</b>	<b>6,204,633</b>
Total Governmental Activities Capital Assets, being Depreciated, Net	7,011,201	(572,029)	(4,264)	6,434,908
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 9,228,149</b>	<b>\$ (368,473)</b>	<b>\$ (4,264)</b>	<b>\$ 8,855,412</b>

Depreciation expense was charged to functions as follows:

Public Works	\$ 439,494
Culture and Recreation	96,369
General Government	54,890
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 590,753</b>

As of December 31, 2019, there are approximately \$175,000 of commitments associated with construction projects in progress. Completion of such projects will be funded through cash reserves and a TAP grant.

**CITY OF CUSTER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(6) Changes in Capital Assets (Continued)**

	Balance 12/31/2018	Additions	Transfers/ Deletions	Balance 12/31/2019
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 146,395	\$ -	\$ -	\$ 146,395
<b>Total Capital Assets, not being Depreciated</b>	<b>146,395</b>	<b>-</b>	<b>-</b>	<b>146,395</b>
Capital Assets, being Depreciated:				
Buildings	1,490,574	26,546	-	1,517,120
Improvements Other Than Buildings	14,812,268	-	-	14,812,268
Machinery and Equipment	1,899,596	-	-	1,899,596
<b>Total Capital Assets, being Depreciated</b>	<b>18,202,438</b>	<b>26,546</b>	<b>-</b>	<b>18,228,984</b>
Less Accumulated Depreciation for:				
Buildings	955,498	33,023	-	988,521
Improvements Other Than Buildings	6,069,117	341,821	-	6,410,938
Machinery and Equipment	1,355,268	82,665	-	1,437,933
<b>Total Accumulated Depreciation</b>	<b>8,379,883</b>	<b>457,509</b>	<b>-</b>	<b>8,837,392</b>
Total Business-Type Activities Capital Assets, being Depreciated, Net				
	9,822,555	(430,963)	-	9,391,592
<b>Total Business-Type Capital Assets, Net</b>	<b>\$ 9,968,950</b>	<b>\$ (430,963)</b>	<b>\$ -</b>	<b>\$ 9,537,987</b>

Depreciation expense was charged to functions as follows:

Sewer	\$ 226,544
Water	230,965
<b>Total Depreciation Expense - Business-Type</b>	<b>\$ 457,509</b>

**CITY OF CUSTER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(7) Long-Term Debt**

The following is a summary of the long-term debt activity for the year ending December 31, 2019:

	Balance 12/31/2018	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2019	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
TIF #2 - Stonehill	\$ 1,569,901	\$ -	\$ -	\$ 1,569,901	\$ -
Accrued Interest - TIF #2	919,911	151,356	57,348	1,013,919	71,800
TIF #4 - Downtown (2011 Bonds)	771,155	-	77,197	693,958	80,016
TIF #5 - Pamida	229,040	-	21,500	207,540	23,900
Compensated Absences	48,159	23,163	20,729	50,593	50,593
<b>Total Governmental Activities</b>	<b>3,538,166</b>	<b>174,519</b>	<b>176,774</b>	<b>3,535,911</b>	<b>226,309</b>
<b>Business-Type Activities:</b>					
2007 USDA Water Revenue Bond	1,769,814	-	34,567	1,735,247	35,677
2012 SRF Sewer Revenue Bond	774,799	-	39,100	735,699	40,288
Compensated Absences	68,038	26,784	22,379	72,443	72,443
	2,612,651	26,784	96,046	2,543,389	148,408
<b>Total Primary Government</b>	<b>\$ 6,150,817</b>	<b>\$ 201,303</b>	<b>\$ 272,820</b>	<b>\$ 6,079,300</b>	<b>\$ 374,717</b>

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, 2019, property tax revenues were \$57,348, \$112,244, and \$35,613 for TIFs #2, #4, and #5, respectively. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$106,510 for the year ended December 31, 2019.

Business-type Activities

The City has pledged future revenues of the Water and Sewer Funds for the retirement of debt issues 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 (CONTINUED)  
DECEMBER 31, 2019**

**(7) Long-Term Debt (Continued)**

Business-type Activities (Continued)

Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year.

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current Year Principal and Interest	\$ 107,177	\$ 61,048
Pledged Revenue	625,942	609,227

Long-term debt at December 31, 2019, is comprised of the following:

*Revenue Bonds*

2007 USDA Water Loan, matures in January 2047, interest at 4.13 percent, due in monthly installments of \$8,910. Financed through the Water Fund. \$ 1,735,247

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. 735,699

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Total Revenue Bonds 2,470,946

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*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 2025. Financed through the TIF Debt Service Fund. 1,569,901

TIF #4, Series 2011, including variable interest at not less than 4.50 percent, and not to exceed 7.00 percent, due in semi-annual installments of \$56,903 through 2027. Financed through the TIF Debt Service Fund. 693,958

TIF #5, including interest at 7.00 percent, due in varying semi-annual installments of incremental property taxes collected through 2021. Financed through the TIF Debt Service Fund. 207,540

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Total Tax Increment Financing Obligations 2,471,399

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*Compensated Absences*

General Fund 50,593

Water Fund 35,994

Sewer Fund 36,449

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Total Compensated Absences 123,036

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Accrued Interest (TIF #2) 1,013,919

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**Total Long-Term Debt \$ 6,079,300**

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**CITY OF CUSTER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(7) Long-Term Debt (Concluded)**

The annual requirements to amortize long-term debt outstanding as of December 31, 2019, except for compensated absences and accrued interest on TIF #2, are as follows:

	Revenue Bonds		TIF Obligations		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2020	92,872	75,965	120,120	103,916	<b>212,992</b>	<b>179,881</b>
2021	90,148	78,689	113,855	110,181	<b>204,003</b>	<b>188,870</b>
2022	87,324	81,513	102,676	246,013	<b>190,000</b>	<b>327,526</b>
2023	84,396	84,442	92,743	92,864	<b>177,139</b>	<b>177,306</b>
2024	81,359	87,478	88,104	97,503	<b>169,463</b>	<b>184,981</b>
2025-2029	357,175	487,060	55,369	1,820,922	<b>412,544</b>	<b>2,307,982</b>
2030-2034	262,521	566,135	-	-	<b>262,521</b>	<b>566,135</b>
2035-2039	174,486	360,157	-	-	<b>174,486</b>	<b>360,157</b>
2040-2044	92,035	442,607	-	-	<b>92,035</b>	<b>442,607</b>
2045-2047	9,666	206,900	-	-	<b>9,666</b>	<b>206,900</b>
<b>Total</b>	<b>\$ 1,331,982</b>	<b>\$ 2,470,946</b>	<b>\$ 572,867</b>	<b>\$ 2,471,399</b>	<b>\$ 1,904,849</b>	<b>\$ 4,942,345</b>

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

The City has bond reserves of \$106,920 at December 31, 2019, in accordance with debt covenants on the 2007 USDA Water Revenue bonds. Additionally, the 2012 SRF Sewer Revenue bonds have a covenant requiring the City to keep net sewer revenue available for debt service at 110 percent of debt service expenses each year.

**(8) Pension Plan**

All employees, working more than 20 hours per week during the year, participate in the SDRS, a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

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

**CITY OF CUSTER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(8) Pension Plan (Continued)**

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.

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, 2019, 2018, and 2017 were **\$41,955**, \$40,750, and \$37,998, 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, 2019, SDRS is 100.09 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, 2019 are as follows:

	Governmental Activities	Business-Type Activities	<b>Total</b>
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 2,185,796	\$ 1,866,704	<b>\$ 4,052,500</b>
Less: Proportionate Share of Total Pension Asset	(2,183,939)	(1,865,118)	<b>(4,049,057)</b>
<b>Proportionate Share of Net Pension Asset</b>	<b>\$ 1,857</b>	<b>\$ 1,586</b>	<b>\$ 3,443</b>

At December 31, 2019, the City reported an asset of \$3,443 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019, 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, 2019, the City’s proportion was .0324907 percent, which is an increase of .0013413 percent from its proportion measured as of June 30, 2018.

**CITY OF CUSTER**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(8) Pension Plan (Continued)**

For the year ended December 31, 2019, the City recognized pension expense of \$133,447. At December 31, 2019, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 11,948	\$ -
Changes in Assumption	70,167	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	(19,836)	-
Changes in Proportion and Difference between City Contributions and Proportionate Share of Contributions	-	-
City Contributions Subsequent to the Measurement Date	20,910	-
<b>Total</b>	<b>\$ 83,189</b>	<b>\$ -</b>

Deferred outflow of resources includes \$83,189 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ending December 31, 2020. 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:

2020	\$ 75,279
2021	(11,667)
2022	(7,938)
2023	6,605
	<b>\$ 62,279</b>

Actuarial Assumptions:

The total pension asset in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	6.50 percent at entry to 3.00 percent after 25 years of service
Investment Rate of Return	6.50 percent, net of pension plan investment expense

Mortality rates were based on 97 percent of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2016.

**CITY OF CUSTER**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(8) Pension Plan (Concluded)**

Actuarial Assumptions (Continued):

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the 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, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
	<u>100.0%</u>	

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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 571,491	\$ (3,443)	\$ (471,911)

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 THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(9) 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, 2019, 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 detailed below, 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.

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

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

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

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

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

As of December 31, 2019, the City’s balance available to be refunded per the SDPAA was \$42,904, which was an increase of \$3,996 from the previous year. The change in amount available for refund was accounted for as a decrease in insurance expenditures.

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 four years.

**CITY OF CUSTER**

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2019**

**(9) Risk Management (Continued)**

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.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CUSTER**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGETARY BASIS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue</b>				
<i>Taxes:</i>				
311 General Property Taxes	\$ 899,800	\$ 899,800	\$ 919,169	\$ 19,369
313 General Sales and Use Taxes	1,657,000	1,657,000	1,660,299	3,299
315 Amusement Taxes	500	500	204	(296)
319 Penalties and Interest on Delinquent Taxes	2,000	2,000	1,612	(388)
320 Licenses and Permits	58,400	58,400	87,094	28,694
<i>Intergovernmental Revenue:</i>				
334 State Grants	7,000	7,000	-	(7,000)
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	2,800	2,800	3,176	376
335.02 Motor Vehicle Commercial Prorate	6,300	6,300	-	(6,300)
335.03 Liquor Tax Reversion	13,400	13,400	13,561	161
335.04 Motor Vehicle Licenses (5%)	40,000	40,000	42,185	2,185
335.08 Local Government Highway and Bridge Fund	31,000	31,000	31,681	681
<i>County Shared Revenue:</i>				
338.02 County HBR Tax	1	1	3,991	3,990
<i>Charges for Goods and Services:</i>				
341 General Government	8,550	8,550	8,464	(86)
346 Culture and Recreation	4,200	4,200	4,450	250
348 Cemeteries	4,500	4,500	7,800	3,300
350 Fines and Forfeits	100	100	1,008	908
352 Animal Control Fines	200	200	-	(200)
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	11,000	11,000	64,045	53,045
362 Rentals	6,250	6,250	6,175	(75)
367 Contributions and Donations from Private Sources	-	-	2,500	2,500
368 Liquor Operating Agreement Income	200,000	200,000	206,103	6,103
369 Other	20,500	20,500	15,750	(4,750)
<b>Total Revenue</b>	<b>2,973,501</b>	<b>2,973,501</b>	<b>3,079,267</b>	<b>105,766</b>



**CITY OF CUSTER**

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND - BUDGETARY BASIS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	135,685	138,685	108,511	30,174
413 Elections	1,200	1,200	711	489
414 Financial Administration	173,710	213,710	140,268	73,442
419 Other	3,123,985	3,123,985	344,122	2,779,863
<i>Public Safety:</i>				
421 Police	493,500	493,500	389,817	103,683
422 Fire	30,500	30,500	30,500	-
<i>Public Works:</i>				
431 Highways and Streets	806,410	806,410	500,415	305,995
437 Cemeteries	35,450	37,450	35,890	1,560
<i>Health and Welfare:</i>				
444 Humane Society	12,560	12,560	12,059	501
447 Hospitals, Nursing Homes, and Rest Homes	347,000	347,000	347,000	-
<i>Culture and Recreation:</i>				
451 Custer Cruisin'	11,415	11,415	7,966	3,449
451 Swimming	114,000	116,500	34,293	82,207
452 Parks	220,240	220,240	176,683	43,557
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	72,000	72,000	72,000	-
<b>Total Expenditures</b>	<b>5,577,655</b>	<b>5,625,155</b>	<b>2,200,235</b>	<b>3,424,920</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(2,604,154)</b>	<b>(2,651,654)</b>	<b>879,032</b>	<b>3,530,686</b>
<b>Other Financing Sources</b>				
391 Sale of Municipal Property	-	-	23,489	23,489
<b>Net Change in Fund Balance</b>	<b>(2,604,154)</b>	<b>(2,651,654)</b>	<b>902,521</b>	<b>3,554,175</b>
Fund Balance - December 31, 2018	5,219,487	5,219,487	5,219,487	-
<b>Fund Balance - December 31, 2019</b>	<b>\$ 2,615,333</b>	<b>\$ 2,567,833</b>	<b>\$ 6,122,008</b>	<b>\$ 3,554,175</b>

The accompanying notes to required supplementary information are an integral part of this statement.

**CITY OF CUSTER**

**BUDGETARY COMPARISON SCHEDULE  
THIRD PENNY (PROMOTION) FUND - BUDGETARY BASIS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue</b>				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 256,000	\$ 256,000	\$ 244,898	\$ (11,102)
<i>Miscellaneous Revenue:</i>				
361 Investment Earnings	300	300	1,345	1,045
<b>Total Revenue</b>	<b>256,300</b>	<b>256,300</b>	<b>246,243</b>	<b>(10,057)</b>
<b>Expenditures</b>				
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	256,300	260,175	201,918	58,257
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>(3,875)</b>	<b>44,325</b>	<b>48,200</b>
Fund Balance - December 31, 2018	161,901	161,901	161,901	-
<b>Fund Balance - December 31, 2019</b>	<b>\$ 161,901</b>	<b>\$ 158,026</b>	<b>\$ 206,226</b>	<b>\$ 48,200</b>

The accompanying notes to required supplementary information are an integral part of this statement.

**CITY OF CUSTER**

**BUDGETARY COMPARISON SCHEDULE  
BID DISTRICT FUND - BUDGETARY BASIS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue</b>				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 160,000	\$ 160,000	\$ 137,436	\$ (22,564)
<b>Expenditures</b>				
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	160,000	160,000	137,975	22,025
<b>Net Change in Fund Balance</b>	-	-	(539)	(539)
Fund Balance - December 31, 2018	34,250	34,250	34,250	-
<b>Fund Balance - December 31, 2019</b>	<b>\$ 34,250</b>	<b>\$ 34,250</b>	<b>\$ 33,711</b>	<b>\$ (539)</b>

The accompanying notes to required supplementary information are an integral part of this statement.

**CITY OF CUSTER**

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)  
DECEMBER 31, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's Proportion of the Net Pension Liability/(Asset)	0.03249070%	0.03114940%	0.03213500%	0.03367600%	0.03348000%
City's Proportionate Share of Net Pension Liability/(Asset)	\$ (3,443)	\$ (727)	\$ (2,916)	\$ 113,755	\$ (141,998)
City's Covered Payroll (Plan's Fiscal Year)	\$ 690,816	\$ 647,564	\$ 652,927	\$ 641,667	\$ 635,252
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	-0.50%	-0.11%	-0.45%	17.73%	-22.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability/(Asset)	100.09%	100.02%	100.10%	96.89%	104.10%

**CITY OF CUSTER**

**SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS  
DECEMBER 31, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 41,955	\$ 40,750	\$ 37,998	\$ 38,826	\$ 38,488
Contributions in Relation to the Contractually Required Contribution	<u>41,955</u>	<u>40,750</u>	<u>37,998</u>	<u>38,826</u>	<u>38,488</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll (Calendar Year)	\$ 699,249	\$ 679,160	\$ 633,305	\$ 647,098	\$ 641,477
Contributions as a Percentage of Covered Payroll	6.0%	6.0%	6.0%	6.0%	6.0%

## **CITY OF CUSTER**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2019**

#### **(1) Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2019.
7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with the modified-accrual basis of accounting, except for the following:

The financial statements prepared in conformity with US GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new vehicle would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary RSI Schedule, the purchase of that vehicle would be reported as an expenditure of the Public Safety function of government, along with all other current Public Safety related expenditures.

## 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 City of Custer (the City) as of and for the year ended December 31, 2019, 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 4, 2020.

### **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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as #2019-001 to be a material weakness.

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 as #2019-02 to be a significant deficiency.

### **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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.



City Council

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**City's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the 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 4, 2020

**CITY OF CUSTER**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2019**

**Material Weakness**

#2019-001 FINDING: Financial Statement Preparation

*Condition and Cause:* As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness and presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for municipalities of your size.

*Criteria and Effect:* It is our responsibility to inform the City Council that this deficiency could result in a material misstatement to the financial statements that would not have been prevented or detected by the City's management.

*Repeat Finding from Prior Year:* Yes, prior year finding 2018-001.

*Recommendation:* As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's financial statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Views of Responsible Officials:* See City's Corrective Action Plan.

**Significant Deficiency**

#2019-002 FINDING: Audit Adjustments

*Condition and Cause:* During the course of the engagement, we posted one audit adjustment, as well as adjusting for the City's share of SDRS pension activity.

*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 misstatement of the City's financial statements.

*Repeat Finding from Prior Year:* Yes, prior year finding 2018-002.

*Recommendation:* We recommend the property tax receivable and deferral be adjusted to actual. We recommend the City review the pension adjustment annually.

*Views of Responsible Officials:* See City's Corrective Action Plan.

## MANAGEMENT RESPONSE



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Custer, SD 57730

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Finance Officer

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Fax: (605) 673-2411

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2019**

The City of Custer respectfully submits the following summary schedule of prior audit findings from the December 31, 2018 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2018 Schedule of Findings.

**#2018-001 FINDING: Financial Statement Preparation**

It is more cost effective for the City to hire Ketel Thorstenson, LLP, 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. The City has accepted the risk associated with Finding #2018-001 regarding the preparation of the financial statements. The finding, originally issued years ago, is repeated as Finding #2019-001 in the Schedule of Findings.

**#2018-002 FINDING: Audit Adjustments**

Although Finding #2018-002 will be repeated as Finding #2019-002, it's due to different journal entries in the current year. See Corrective Action Plan.



622 Crook Street  
Custer, SD 57730

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Finance Officer

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**CORRECTIVE ACTION PLAN  
DECEMBER 31, 2019**

City of Custer respectfully submits the following corrective action plan regarding findings from the December 31, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

**#2019-001 FINDING: Financial Statement Preparation**

The City has accepted the risk associated with Finding #2019-001 regarding the preparation of the financial statements which was originally issued years ago. The Finance Officer is responsible for the corrective action plan for this finding, and there is no anticipated completion date.

**#2019-002 FINDING: Audit Adjustments**

The Finance Officer is responsible for the corrective action plan for this finding. End of year entries for posting of property tax payments will be monitored more closely to assure they are posted properly and that the deferred property tax amount balances to all revenue outside of 30 days.