

CITY OF CUSTER

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020



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, 2020, 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, 2020, 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

Other Matters - Required Supplementary Information Omitted

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on page 39 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2021, 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 3, 2021

CITY OF CUSTER

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments (Note 2)	\$ 7,118,364	\$ 2,516,087	\$ 9,634,451
Receivables	386,073	187,697	573,770
Other Assets (Note 8)	62,678	-	62,678
Net Pension Asset (Note 7)	708	630	1,338
Capital Assets (Note 5):			
Land and Construction in Progress	3,102,551	307,926	3,410,477
Other Capital Assets, Net of Depreciation	6,294,129	8,969,095	15,263,224
TOTAL ASSETS	16,964,503	11,981,435	28,945,938
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows of Resources (Notes 3 and 7)	9,307	8,277	17,584
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 16,973,810	\$ 11,989,712	\$ 28,963,522
LIABILITIES			
Accounts Payable	\$ 19,598	\$ 68,747	\$ 88,345
Other Current Liabilities	19,608	52,911	72,519
Long-Term Liabilities (Note 6):			
Due Within One Year	231,379	164,829	396,208
Due in More Than One Year	3,250,469	2,188,429	5,438,898
TOTAL LIABILITIES	3,521,054	2,474,916	5,995,970
NET POSITION			
Net Investment in Capital Assets	5,957,658	6,978,466	12,936,124
Restricted for:			
Debt Service	137	-	137
Business Improvement District	83,218	-	83,218
Promoting the City	248,419	-	248,419
Jackl Drainage Improvements	9,988	-	9,988
SDPAA (Note 8)	43,334	-	43,334
SDRS Pension (Note 7)	10,015	8,907	18,922
Permanently Restricted Purposes:			
Expendable	66,975	-	66,975
Nonexpendable	50,000	-	50,000
Unrestricted	6,983,012	2,527,423	9,510,435
TOTAL NET POSITION	13,452,756	9,514,796	22,967,552
TOTAL LIABILITIES AND NET POSITION	\$ 16,973,810	\$ 11,989,712	\$ 28,963,522

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

CITY OF CUSTER

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

Functions/Programs	Expenses	--- Program Revenues ---		Net (Expense) Revenue and ----- Changes in Net Position -----			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 578,839	\$ 121,618	\$ -	\$ -	\$ (457,221)	\$ -	\$ (457,221)
Public Safety	432,176	1,111	565,744	-	134,679	-	134,679
Public Works	919,209	91,454	-	385,512	(442,243)	-	(442,243)
Health and Welfare	359,059	-	-	-	(359,059)	-	(359,059)
Culture and Recreation	293,288	6,315	-	38,263	(248,710)	-	(248,710)
Conservation and Development	492,812	-	-	-	(492,812)	-	(492,812)
Miscellaneous	-	233,339	-	-	233,339	-	233,339
Interest on Long-Term Debt	182,321	-	-	-	(182,321)	-	(182,321)
Total Governmental Activities	3,257,704	453,837	565,744	423,775	(1,814,348)	-	(1,814,348)
Business-Type Activities:							
Water	754,990	644,422	11,490	-	-	(99,078)	(99,078)
Sewer	750,422	638,807	11,241	10,000	-	(90,374)	(90,374)
Solid Waste	169,322	194,590	-	-	-	25,268	25,268
Total Business-Type Activities	1,674,734	1,477,819	22,731	10,000	-	(164,184)	(164,184)
Total Primary Government	\$ 4,932,438	\$ 1,931,656	\$ 588,475	\$ 433,775	(1,814,348)	(164,184)	(1,978,532)
General Revenues:							
Taxes:							
Property Taxes					1,260,097	-	1,260,097
Sales Taxes					2,047,484	-	2,047,484
State Shared Revenue					19,208	-	19,208
Unrestricted Investment Earnings					22,395	16,133	38,528
Miscellaneous Revenue					10,601	-	10,601
Total General Revenue					3,359,785	16,133	3,375,918
Change in Net Position					1,545,437	(148,051)	1,397,386
Net Position, Beginning					11,907,319	9,662,847	21,570,166
Net Position, Ending					\$ 13,452,756	\$ 9,514,796	\$ 22,967,552

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

CITY OF CUSTER

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General Fund	Third Penny (Promotion) Fund	BID Fund
Assets			
101 Cash and Cash Equivalents (Note 2)	\$ 5,268,248	\$ 251,605	\$ 78,547
105 Investments (Note 2)	1,402,989	-	-
108 Property Taxes Receivable - Delinquent	80,011	-	-
110 Sales Taxes Receivable	130,104	9,212	-
115 Accounts Receivable	24,696	-	4,651
132 Due from Other Governments	135,653	-	-
135 Interest Receivable	1,609	-	-
154.1 Restricted Deposits (Note 8)	43,334	-	-
155 Prepaid Expenses	19,324	-	20
Total Assets	\$ 7,105,968	\$ 260,817	\$ 83,218
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 7,200	\$ 12,398	\$ -
216 Accrued Wages Payable	18,279	-	-
Total Liabilities	25,479	12,398	-
<i>Deferred Inflows of Resources (Note 3)</i>			
245 Unavailable Revenue - Property Taxes	68,039	-	-
<i>Fund Balances</i>			
<i>263 Nonspendable:</i>			
263.51 Perpetual Care Cemetery	-	-	-
263.02 Prepaid Expenses	19,324	-	20
263.49 SDPAA Reserve (Note 8)	43,334	-	-
<i>264 Restricted:</i>			
264.01 Debt Service	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Promoting the City	-	248,419	-
264.09 Business Improvement District	-	-	83,198
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	1,247,874	-	-
266.02 Hospital Sales Tax	1,276,417	-	-
267 Unassigned	4,165,513	-	-
Total Fund Balances	7,012,450	248,419	83,218
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 7,105,968	\$ 260,817	\$ 83,218

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

TIF Debt Service Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ -	\$ 17,907	\$ 5,616,307
-	99,068	1,502,057
-	-	80,011
-	-	139,316
137	-	29,484
-	-	135,653
-	-	1,609
-	-	43,334
-	-	19,344
\$ 137	\$ 116,975	\$ 7,567,115

\$ -	\$ -	\$ 19,598
-	-	18,279
-	-	37,877

-	-	68,039
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-	50,000	50,000
-	-	19,344
-	-	43,334
137	-	137
-	66,975	66,975
-	-	248,419
-	-	83,198
-	-	9,988
-	-	250,000
-	-	1,247,874
-	-	1,276,417
-	-	4,165,513
137	116,975	7,461,199

\$ 137	\$ 116,975	\$ 7,567,115
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CITY OF CUSTER

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Total Fund Balances - Governmental Funds \$ 7,461,199

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. 9,396,680

Long-term liabilities are not due and payable in the current period and therefore
not reported in the funds. (3,481,848)

Net pension asset reported in governmental activities is not an available financial
resource and therefore is not reported in the funds. 708

Pension related deferred outflows are components of pension asset and therefore
are not reported in the funds. 9,307

Accrued interest is not due and payable in the current period and therefore is
not reported in the funds. (1,329)

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. 68,039

Total Net Position - Governmental Funds \$ 13,452,756

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, 2020

Revenue	General Fund	Third Penny (Promotion) Fund	BID Fund	TIF Debt Service Fund
<i>Taxes:</i>				
311 General Property Taxes	\$ 1,028,545	\$ -	\$ -	\$ 230,383
313 General Sales and Use Taxes	1,719,057	239,038	89,389	-
315 Amusement Taxes	216	-	-	-
319 Penalties and Interest on Delinquent Taxes	2,443	-	-	-
320 Licenses and Permits	104,372	-	-	-
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	766,056	-	185,200	-
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	4,282	-	-	-
335.03 Liquor Tax Reversion	14,926	-	-	-
335.04 Motor Vehicle Licenses (5%)	44,129	-	-	-
335.08 Local Government Highway and Bridge Fund	32,717	-	-	-
<i>County Shared Revenue:</i>				
338.02 County HBR Tax	6,408	-	-	-
<i>Charges for Goods and Services:</i>				
341 General Government	11,246	-	-	-
346 Culture and Recreation	6,315	-	-	-
348 Cemeteries	3,800	-	-	-
350 Fines and Forfeits	1,111	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	22,010	385	-	-
362 Rentals	6,000	-	-	-
368 Liquor Operating Agreement Income	233,339	-	-	-
369 Other	10,601	-	-	-
Total Revenue	4,017,573	239,423	274,589	230,383

Cemetery Perpetual Care Fund	Total Governmental Funds
\$ -	\$ 1,258,928
-	2,047,484
-	216
-	2,443
-	104,372
-	951,256
-	4,282
-	14,926
-	44,129
-	32,717
-	6,408
-	11,246
-	6,315
4,400	8,200
-	1,111
-	22,395
-	6,000
-	233,339
-	10,601
4,400	4,766,368

CITY OF CUSTER

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2020

	General Fund	Third Penny (Promotion) Fund	BID Fund	TIF Debt Service Fund
Expenditures				
<i>General Government:</i>				
411 Legislative	117,555	-	-	-
413 Elections	350	-	-	-
414 Financial Administration	132,121	-	-	-
419 Other	265,754	-	-	-
<i>Public Safety:</i>				
421 Police	401,676	-	-	-
422 Fire	30,500	-	-	-
<i>Public Works:</i>				
431 Highways and Streets	438,657	-	-	-
437 Cemeteries	37,380	-	-	-
<i>Health and Welfare:</i>				
444 Humane Society	12,059	-	-	-
447 Hospital Subsidy	347,000	-	-	-
<i>Culture and Recreation:</i>				
451 Custer Cruisin'	7,756	-	-	-
451 Swimming	28,373	-	-	-
452 Parks	157,622	-	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	70,500	197,230	225,082	-
470 Debt Service	-	-	-	230,246
485 Capital Outlay	1,079,828	-	-	-
Total Expenditures	3,127,131	197,230	225,082	230,246
Net Change in Fund Balances	890,442	42,193	49,507	137
Fund Balances - December 31, 2019	6,122,008	206,226	33,711	-
Fund Balances - December 31, 2020	\$ 7,012,450	\$ 248,419	\$ 83,218	\$ 137

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

Cemetery Perpetual Care Fund	Total Governmental Funds
-	117,555
-	350
-	132,121
-	265,754
-	401,676
-	30,500
-	438,657
-	37,380
-	12,059
-	347,000
-	7,756
-	28,373
-	157,622
-	492,812
-	230,246
-	1,079,828
-	<u>3,779,689</u>
4,400	986,679
112,575	<u>6,474,520</u>
\$ 116,975	\$ 7,461,199

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, 2020

Net Change in Fund Balances - Total Government Funds \$ 986,679

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	1,079,828
Depreciation Expense	(576,823)

Capital assets contributed to the City, which are included in the Statement of Activities.	38,263
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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."	(1,490)
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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.	179,337
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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.	(133,041)
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Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	7,767
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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.	1,629
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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.	(36,712)
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Change in Net Position of Governmental Activities	\$ 1,545,437
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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, 2020

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Assets				
Current Assets				
101 Cash and Cash Equivalents (Note 2)	\$ 551,442	\$ 168,804	\$ 107,474	\$ 827,720
105 Investments (Note 2)	395,321	1,216,838	76,208	1,688,367
115 Accounts Receivable	67,132	89,253	31,203	187,588
135 Interest Receivable	26	20	63	109
Total Current Assets	1,013,921	1,474,915	214,948	2,703,784
Noncurrent Assets				
189 Net Pension Asset (Note 7)	308	322	-	630
Capital Assets (Note 5)				
160 Land	54,482	91,913	-	146,395
162 Buildings	946,815	570,305	-	1,517,120
163 Accumulated Depreciation (AD) - Buildings	(618,308)	(404,342)	-	(1,022,650)
164 Improvements Other Than Buildings	8,502,657	6,309,611	-	14,812,268
165 AD - Improvements Other Than Buildings	(3,659,967)	(3,084,951)	-	(6,744,918)
166 Machinery and Equipment	400,550	1,522,952	-	1,923,502
167 AD - Machinery and Equipment	(373,564)	(1,142,663)	-	(1,516,227)
168 Construction in Progress	-	161,531	-	161,531
Total Noncurrent Assets	5,252,973	4,024,678	-	9,277,651
Total Assets	6,266,894	5,499,593	214,948	11,981,435
Deferred Outflows of Resources				
196 Pension Related Deferred Outflows (Notes 3 and 7)	4,045	4,232	-	8,277
Total Assets and Deferred Outflows of Resources	\$ 6,270,939	\$ 5,503,825	\$ 214,948	\$ 11,989,712

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Liabilities and Net Position				
Current Liabilities				
202 Accounts Payable	\$ 1,825	\$ 66,033	\$ 889	\$ 68,747
205 Current Portion of Long-Term Debt (Note 6)	68,616	41,510	-	110,126
215 Accrued Interest Payable	2,673	4,345	-	7,018
216 Accrued Wages	5,401	5,807	-	11,208
220 Customer Deposits	34,685	-	-	34,685
233 Accrued Leave Payable (Note 6)	27,175	27,528	-	54,703
Total Current Liabilities	140,375	145,223	889	286,487
Long-Term Liabilities				
237 Long-Term Debt, Net of Current Portion (Note 6)	1,534,528	653,901	-	2,188,429
Total Liabilities	1,674,903	799,124	889	2,474,916
Net Position				
253.1 Net Investment in Capital Assets	3,649,521	3,328,945	-	6,978,466
235.29 Restricted for SDRS Pension (Note 7)	4,353	4,554	-	8,907
262.0 Unrestricted	942,162	1,371,202	214,059	2,527,423
Total Net Position	4,596,036	4,704,701	214,059	9,514,796
Total Liabilities and Net Position	\$ 6,270,939	\$ 5,503,825	\$ 214,948	\$ 11,989,712

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, 2020**

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Operating Revenue				
380 Charges for Goods and Services	\$ 644,422	\$ 638,807	\$ 194,590	\$ 1,477,819
Operating Expenses				
410 Personal Services	230,026	242,818	-	472,844
420 Other Current Expenses	261,710	260,812	169,322	691,844
457 Depreciation	220,980	225,423	-	446,403
Total Operating Expenses	712,716	729,053	169,322	1,611,091
Operating Income (Loss)	(68,294)	(90,246)	25,268	(133,272)
Non-Operating Income (Expense)				
331 Federal Grants	11,490	11,241	-	22,731
334 State Grants	-	10,000	-	10,000
361 Earnings on Deposits and Investments	6,856	8,846	431	16,133
470 Interest Expense	(42,274)	(21,369)	-	(63,643)
Total Non-Operating Income (Expense)	(23,928)	8,718	431	(14,779)
Change in Net Position	(92,222)	(81,528)	25,699	(148,051)
Net Position - December 31, 2019	4,688,258	4,786,229	188,360	9,662,847
Net Position - December 31, 2020	\$ 4,596,036	\$ 4,704,701	\$ 214,059	\$ 9,514,796

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, 2020

	Water Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 648,220	\$ 629,126	\$ 193,948	\$ 1,471,294
Payments to Suppliers	(262,927)	(277,858)	(169,336)	(710,121)
Payments to Employees	(222,559)	(235,361)	-	(457,920)
Net Cash Flows Provided by Operating Activities	162,734	115,907	24,612	303,253
Cash Flows Provided by Noncapital Financing Activities:				
Operating Subsidies	11,490	11,241	-	22,731
Cash Flows from Capital and Related Financing Activities:				
Purchase of Capital Assets	(11,953)	(114,467)	-	(126,420)
Principal Paid on Capital Debt	(132,103)	(40,288)	-	(172,391)
Interest Paid	(43,327)	(21,622)	-	(64,949)
Capital Grants	-	10,000	-	10,000
Net Cash Flows Used in Capital and Related Financing Activities	(187,383)	(166,377)	-	(353,760)
Cash Flows Provided by Investing Activities:				
Interest Received	6,991	8,981	598	16,570
Change in Cash and Investments	(6,168)	(30,248)	25,210	(11,206)
Cash and Investments - December 31, 2019	952,931	1,415,890	158,472	2,527,293
Cash and Investments - December 31, 2020	\$ 946,763	\$ 1,385,642	\$ 183,682	\$ 2,516,087
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities				
Operating Income (Loss)	\$ (68,294)	\$ (90,246)	\$ 25,268	\$ (133,272)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:</i>				
Depreciation Expense	220,980	225,423	-	446,403
Change in Assets and Liabilities:				
Change in Receivables	748	(9,681)	(642)	(9,575)
Change in Pension Asset	490	466	-	956
Change in Pension Related Deferred Outflows	15,224	14,818	-	30,042
Change in Accounts Payable	(1,217)	(17,046)	(14)	(18,277)
Change in Accrued Wages	572	1,094	-	1,666
Change in Customer Deposits	3,050	-	-	3,050
Change in Accrued Leave Payable	(8,819)	(8,921)	-	(17,740)
Net Cash Flows Provided by Operating Activities	\$ 162,734	\$ 115,907	\$ 24,612	\$ 303,253
Noncash Investing, Capital and Financing Activities:				
Refinancing of Water Revenue Bond	\$ 1,648,041	\$ -	\$ -	\$ 1,648,041
Purchase of Capital Assets in Accounts Payable	-	59,017	-	59,017

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

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

(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, 2020**

(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, 2020**

(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, 2020**

(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, 2020, 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 reported at their acquisition value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(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.

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

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies (Continued)

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.

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.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Concluded)

Equity Classifications (Continued)

Fund Financial Statements (Continued):

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, 2020. 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, 2020, are unbilled accounts receivable totaling approximately \$41,000, \$50,000, and \$16,000 for the water, wastewater, and solid waste funds, respectively.

Subsequent Events

The City has assessed subsequent events through May 3, 2021, the date which the financial statements were available to be issued.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(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, 2020, the City had the following investments:

Investment	Credit Rating	Maturity	Fair Value
Money Market	Unrated	N/A	\$ 897,954
U.S. Government Securities			
US Treasury Strips - 0%	AAA	1-2 years	149,909
US Treasury Notes - 1.125% - 2.375%	AAA	1-4 years	306,325
External Investment Pools:			
SDFIT	Unrated	N/A	256,167
			1,610,355
Nonnegotiable Certificates of Deposit			2,734,190
Total Investments			\$ 4,344,545

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(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, 2020, none of the City’s deposits were exposed to custodial credit risk. The bank balances at December 31, 2020 are as follows, excluding SDFIT:

	<u>Bank Balance</u>
Insured - FDIC	\$ 1,250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	6,959,397
Total Deposits	\$ 8,209,397

Concentration of Credit Risk:

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

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

(3) Deferred Inflows and Outflows of Resources

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

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.

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(4) Property Taxes

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

(5) Changes in Capital Assets

A summary of changes in capital assets for the year ending December 31, 2020, is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2019	Additions	Transfers/ Deletions	Balance 12/31/2020
Capital Assets, not being Depreciated:				
Land	\$ 1,412,978	\$ -	\$ -	\$ 1,412,978
Construction in Progress	1,007,526	682,047	-	1,689,573
Total Capital Assets, not being Depreciated	2,420,504	682,047	-	3,102,551
Capital Assets, being Depreciated:				
Buildings	1,995,819	-	-	1,995,819
Improvements Other Than Buildings	9,160,760	384,641	(55,460)	9,489,941
Machinery and Equipment	1,482,962	51,403	(5,880)	1,528,485
Total Capital Assets, being Depreciated	12,639,541	436,044	(61,340)	13,014,245
Less Accumulated Depreciation for:				
Buildings	685,041	39,259	-	724,300
Improvements Other Than Buildings	4,266,581	460,819	(55,460)	4,671,940
Machinery and Equipment	1,253,011	76,745	(5,880)	1,323,876
Total Accumulated Depreciation	6,204,633	576,823	(61,340)	6,720,116
Total Governmental Activities Capital Assets, being Depreciated, Net	6,434,908	(140,779)	-	6,294,129
Total Governmental Capital Assets, Net	\$ 8,855,412	\$ 541,268	\$ -	\$ 9,396,680

Depreciation expense was charged to functions as follows:

Public Works	\$ 430,579
Culture and Recreation	92,917
General Government	53,327
Total Depreciation Expense - Governmental	\$ 576,823

As of December 31, 2020, there are approximately \$243,000 of commitments associated with construction projects in progress. Completion of such projects will be funded through cash reserves and a grant.

CITY OF CUSTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(5) Changes in Capital Assets (Continued)

	Balance 12/31/2019	Additions	Transfers/ Deletions	Balance 12/31/2020
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 146,395	\$ -	\$ -	\$ 146,395
Construction in Progress	-	161,531	-	161,531
Total Capital Assets, not being Depreciated	146,395	161,531	-	307,926
Capital Assets, being Depreciated:				
Buildings	1,517,120	-	-	1,517,120
Improvements Other Than Buildings	14,812,268	-	-	14,812,268
Machinery and Equipment	1,899,596	23,906	-	1,923,502
Total Capital Assets, being Depreciated	18,228,984	23,906	-	18,252,890
Less Accumulated Depreciation for:				
Buildings	988,521	34,129	-	1,022,650
Improvements Other Than Buildings	6,410,938	333,980	-	6,744,918
Machinery and Equipment	1,437,933	78,294	-	1,516,227
Total Accumulated Depreciation	8,837,392	446,403	-	9,283,795
Total Business-Type Activities Capital Assets, being Depreciated, Net	9,391,592	(422,497)	-	8,969,095
Total Business-Type Capital Assets, Net	\$ 9,537,987	\$ (260,966)	\$ -	\$ 9,277,021

Depreciation expense was charged to functions as follows:

Sewer	\$ 225,423
Water	220,980
Total Depreciation Expense - Business-Type	\$ 446,403

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(6) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2020:

	Balance 12/31/2019	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2020	Due Within One Year
Primary Government:					
Governmental Activities:					
TIF #2 - Stonehill	\$ 1,569,901	\$ -	\$ -	\$ 1,569,901	\$ -
Accrued Interest - TIF #2	1,013,919	133,041	72,419	1,074,541	77,640
TIF #4 - Downtown (2011 Bonds)	693,958	-	84,268	609,690	84,153
TIF #5 - Pamida	207,540	-	22,650	184,890	26,760
Compensated Absences	50,593	30,296	38,063	42,826	42,826
Total Governmental Activities	3,535,911	163,337	217,400	3,481,848	231,379
Business-Type Activities:					
2007 USDA Water Revenue Bond	1,735,247	-	1,735,247	-	-
2020 Dacotah Water Revenue Bond	-	1,648,041	44,897	1,603,144	68,616
2012 SRF Sewer Revenue Bond	735,699	-	40,288	695,411	41,510
Compensated Absences	72,443	24,194	41,934	54,703	54,703
	2,543,389	1,672,235	1,862,366	2,353,258	164,829
Total Primary Government	\$ 6,079,300	\$ 1,835,572	\$ 2,079,766	\$ 5,835,106	\$ 396,208

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, 2020, property tax revenues were \$72,419, \$119,534, and \$38,430 for TIFs #2, #4, and #5, respectively. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$123,328 for the year ended December 31, 2020.

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, 2020**

(6) 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 excluding the amount refinanced as long-term debt.

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current Year Principal and Interest	\$ 129,480	\$ 61,657
Pledged Revenue	644,422	638,807
Long-term debt at December 31, 2020, is comprised of the following:		
<i>Revenue Bonds</i>		
2020 Water Revenue Bond, matures in April 2040, interest at 2.00 percent, due in monthly installments of \$8,338. Financed through the Water Fund.		\$ 1,603,144
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.		695,411
Total Revenue Bonds		2,298,555
<i>Tax Increment Financing Obligations</i>		
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.		609,690
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.		184,890
Total Tax Increment Financing Obligations		2,364,481
<i>Compensated Absences</i>		
General Fund		42,826
Water Fund		27,175
Sewer Fund		27,528
Total Compensated Absences		97,529
Accrued Interest (TIF #2)		1,074,541
Total Long-Term Debt		\$ 5,835,106

CITY OF CUSTER

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(6) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2020, except for compensated absences and accrued interest on TIF #2, are as follows:

	Revenue Bonds		(a) TIF Obligations		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2021	51,834	110,126	118,472	110,913	170,306	221,039
2022	49,190	112,770	108,535	246,532	157,725	359,302
2023	46,480	115,480	98,583	92,864	145,063	208,344
2024	43,701	118,259	93,944	97,503	137,645	215,762
2025	44,682	120,125	45,739	1,617,321	90,421	1,737,446
2026-2030	184,720	588,734	12,549	199,348	197,269	788,082
2031-2035	152,963	693,856	-	-	152,963	693,856
2036-2040	39,893	439,205	-	-	39,893	439,205
Total	\$ 613,463	\$ 2,298,555	\$ 477,822	\$ 2,364,481	\$ 1,091,285	\$ 4,663,036

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

(7) 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, 2020

(7) 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, 2020, 2019, and 2018 were **\$39,499**, \$41,955, and \$40,750, 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, 2020, SDRS is 100.04 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, 2020 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 2,003,669	\$ 1,782,116	\$ 3,785,785
Less: Proportionate Share of Total Pension Asset	(2,002,961)	(1,781,486)	(3,784,447)
Proportionate Share of Net Pension Asset	\$ 708	\$ 630	\$ 1,338

At December 31, 2020, the City reported an asset of \$1,338 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020, 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, 2020, the City’s proportion was .0307854 percent, which is a decrease of .0017053 percent from its proportion measured as of June 30, 2019.

CITY OF CUSTER

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(7) Pension Plan (Continued)

For the year ended December 31, 2020, the City recognized pension expense of \$107,210. At December 31, 2020, 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	\$ 4,067	\$ -
Changes in Assumption	(130,621)	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	124,268	-
Changes in Proportion and Difference between City Contributions and Proportionate Share of Contributions	-	-
City Contributions Subsequent to the Measurement Date	19,870	-
Total	\$ 17,584	\$ -

Deferred outflow of resources includes \$19,870 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, 2021. 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:

2021	\$ (15,433)
2022	(11,900)
2023	1,880
2024	23,167
	<u>\$ (2,286)</u>

Actuarial Assumptions:

The total pension asset in the June 30, 2020, 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
Future COLAs	1.41 percent

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, 2020, 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, 2020**

(7) 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, 2020 (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%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
	<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)	\$ 518,669	\$ (1,338)	\$ (426,692)

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, 2020**

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft; damage or destruction of assets; errors or omissions; injuries to employees; and natural disasters. During the year ending December 31, 2020, 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, 2020, the City’s balance available to be refunded per the SDPAA was \$43,334, which was an increase of \$430 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, 2020**

(8) 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.

(9) Current Economic Conditions

The City has been impacted by the world-wide coronavirus pandemic. The City's revenue consists primarily of funding provided by the State of South Dakota, the federal government, and local counties. The continued uncertainty regarding the local and national economy and labor markets as a result of the coronavirus pandemic could have a significant impact on the City's ability to maintain staffing and continue to provide services to citizens of the City. The City is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the City's financial position is not known.

SINGLE AUDIT SECTION

CITY OF CUSTER

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Identifying Number	CFDA Number	Amount
<i>U.S. Department of Transportation:</i>			
Pass-Through the S.D. Department of Transportation			
Highway Planning and Construction	716078	20.205	385,512
<i>U.S. Department of Treasury:</i>			
Pass-Through the S.D. Bureau of Finance and Management			
COVID-19 - Coronavirus Relief Fund	N/A	21.019	403,276
COVID-19 - DMO Coronavirus Relief Fund	N/A	21.019	185,200
Total U.S. Department of Treasury			588,476
Total			973,988

Note 1: This schedule is presented on the modified accrual basis of accounting.

Note 2: The City did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



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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, 2020, 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 3, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the city's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings as #2020-001, that we consider to be a material weakness.

Compliance and Other Matters

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

City Council

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 3, 2021



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

City Council
City of Custer
Custer, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Custer's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Unmodified Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings as #2020-002 that we consider to be a significant deficiency.

The City's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other 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 3, 2021

CITY OF CUSTER

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor's Report expresses an unmodified opinion on all of the financial statements of the City of Custer (the City).
2. A material weakness was disclosed during the audit of the financial statements is reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No material weaknesses and one significant deficiency was disclosed during the audit of the major federal award program as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the City expresses unmodified opinions on all major programs, as listed in #7.
6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.
7. The program tested as major programs was Coronavirus Relief Fund (CFDA #21.019).
8. The threshold for distinguishing types A and B programs was \$750,000.
9. The City was not determined to be a low-risk auditee.

B. FINDING – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

#2020-001 FINDING: Financial Statement Preparation:

Federal Program Affected: None

Compliance Requirement: None

Questioned Costs: None

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Additionally, during the course of the engagement, we posted an adjustment for the City's share of SDRS pension activity. 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 of 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 us to do this with cities of your size.

Criteria and Effect: It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

Repeat Finding from Prior Year: Yes, prior year finding #2019-001.

CITY OF CUSTER

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

B. FINDING – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESS (CONTINUED)

#2020-001 FINDING: Financial Statement Preparation (Continued):

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 we have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. Additionally, we recommend the City review the pension adjustment annually. We are satisfied the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

C. FINDING – MAJOR FEDERAL PROGRAM AUDIT

#2020-002 FINDING: Written Allowable Costs Policy

Federal Program Affected: All major federal programs listed in Part A, #7

Compliance Requirement: Allowable Costs

Questioned Costs: None

Condition and Cause: The City does not have a written policy for allowable costs.

Criteria and Effect: Uniform Guidance specifically requires entities to maintain a written policy for allowable costs. Not properly maintaining such policies leads to noncompliance.

Repeat Finding from Prior Year: N/A

Recommendation: The City should create a written policy for allowable costs.

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

MANAGEMENT RESPONSE



622 Crook Street
Custer, SD 57730

Laurie Woodward
Finance Officer

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2019

The City of Custer respectfully submits the following summary schedule of prior audit findings from the December 31, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2019 Schedule of Findings.

#2019-001 FINDING: Financial Statement Preparation

Status: 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.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The City has accepted the risk associated with the auditor's preparing the financial statements. The finding is repeated as Finding #2020-001 in the Schedule of Findings. See Corrective Action Plan.

#2019-002 FINDING: Audit Adjustments

Status: The City recorded all year-end entries, and the finding is not repeated in the current year.

Initial Year Report: Originally issued years ago.



622 Crook Street
Custer, SD 57730

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Finance Officer

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**CORRECTIVE ACTION PLAN
DECEMBER 31, 2020**

City of Custer respectfully submits the following corrective action plan regarding findings from the December 31, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#2020-001 FINDING: Financial Statement Preparation

Responsible Individuals: Laurie Woodward, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2020-001 regarding the preparation of the financial statements, and will continue to have the independent auditor prepare the annual financial statements.

Anticipated Completion Date: Ongoing

#2020-002 FINDING: Written Allowable Costs Policy

Responsible Individuals: Laurie Woodward, Finance Officer

Corrective Action Plan: The City intends to create a written policy for allowable costs in 2021.

Anticipated Completion Date: December 31, 2021