

# CUSTER SCHOOL DISTRICT NO. 16-1

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Financial Statements

**June 30, 2025**



**Custer School District No. 16-1**  
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**June 30, 2025**

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## Independent Auditor's Report

School Board  
Custer School District No. 16-1  
Custer, South Dakota

### **Report on the Audit of the Financial Statements**

#### *Opinions*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer School District No. 16-1 (the District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the District, as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

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

#### *Responsibilities of Management for the Financial Statements*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

In performing an audit in accordance with GAAS and GAS, we:

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

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

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, Schedule of the District's Proportionate Share of the Net Pension Liability (Asset), Schedule of Pension Contributions, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards 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. Such 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 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The list of School District Officials and Corrective Action Plan are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The list of School District Officials and Corrective Action Plan have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2026 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Casey Peterson, LTD*

Casey Peterson, LTD

Rapid City, South Dakota

January 29, 2026

**Custer School District No. 16-1**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2025**

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This section of Custer School District No. 16-1's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2025. Please read it in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- During the 24-25 fiscal year, the District's revenues generated from taxes and other revenues of the governmental and business-type programs were \$1,187,682 more than the \$16,352,779 of governmental and business-type expenses.
- In FY 24-25, the total costs of the District's programs were approximately 1.34% more than the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
  - Governmental fund statements tell how general government services were financed in the short term, as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities that the District operates like businesses. The proprietary funds operated by the District are Food Service Operations and the Preschool Program.
  - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

**Custer School District No. 16-1**  
**Management’s Discussion and Analysis (Unaudited)**  
**June 30, 2025**

Figure A-1 summarizes the major features of the District’s financial statements, including the portion of the District government covered and the types of information contained. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

<b>Figure A-1</b>				
Major Features of Custer School District's Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as instructional, support and cocurricular activities.	Activities of the District operates similar to private businesses, the food service, and preschool operations	Assets held by District on behalf of someone else. Student organizations that have funds on deposit with the District are reported here.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Net Position - Fiduciary Funds *Statement of Changes in Net Position - Fiduciary Funds
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term, and deferred inflows and outflows of resources	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included, and deferred inflows and outflows of resources	All assets and liabilities, both financial and capital, and short-term and long-term, and deferred inflows and outflows of resources	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**Custer School District No. 16-1**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2025**

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**Government-wide Statements**

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

The two government-wide statements report the District's net position and how it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

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

- Governmental Activities - This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.), and capital equipment purchases. Property taxes, state grants, federal grants, and interest earnings finance most of these activities.
- Business-type Activities - The District charges a fee to students to help cover the costs of providing meal services to all students. The District charges tuition to students in the preschool program.

**Fund Financial Statements**

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

- State Law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like Student Club accounts).

The District has three kinds of funds:

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

**Custer School District No. 16-1**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2025**

- **Proprietary Funds** - Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund and the Preschool Program Fund are the proprietary funds maintained by the District.
- **Fiduciary Funds** - The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

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

**Net Position**

The District's combined net position increased as follows:

Table A-1  
Custer School District No. 16-1  
Statements of Net Position

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2024	2025	2024	2025	2024	2025	2024 - 2025
Current and Other Assets	\$29,531,240	\$ 23,900,278	\$186,699	\$ 157,576	\$ 29,717,939	\$ 24,057,854	-19.05%
Capital Assets (Net of Depreciation)	33,090,509	39,026,661	41,535	48,327	33,132,044	39,074,988	17.94%
<b>Total Assets</b>	<u>62,621,749</u>	<u>62,926,939</u>	<u>228,234</u>	<u>205,903</u>	<u>62,849,983</u>	<u>63,132,842</u>	0.45%
<b>Total Deferred Outflows of Resources</b>	<u>2,169,466</u>	<u>1,962,295</u>	<u>-</u>	<u>-</u>	<u>2,169,466</u>	<u>1,962,295</u>	-9.55%
Long-term Liabilities Outstanding	26,255,263	25,704,192	-	-	26,255,263	25,704,192	-2.10%
Other Liabilities	1,504,458	2,543,586	37,877	23,933	1,542,335	2,567,519	66.47%
<b>Total Liabilities</b>	<u>27,759,721</u>	<u>28,247,778</u>	<u>37,877</u>	<u>23,933</u>	<u>27,797,598</u>	<u>28,271,711</u>	1.71%
<b>Total Deferred Inflows of Resources</b>	<u>8,133,295</u>	<u>7,302,148</u>	<u>-</u>	<u>-</u>	<u>8,133,295</u>	<u>7,302,148</u>	-10.22%
Net Investment in Capital Assets	16,201,212	14,587,592	41,535	48,327	16,242,747	14,635,919	-9.89%
Restricted	16,531,521	10,511,193	-	-	16,531,521	10,511,193	-36.42%
Unrestricted	(3,834,534)	4,240,523	148,822	133,643	(3,685,712)	4,374,166	218.68%
<b>Total Net Position</b>	<u>\$ 28,898,199</u>	<u>\$ 29,339,308</u>	<u>\$ 190,357</u>	<u>\$ 181,970</u>	<u>\$ 29,088,556</u>	<u>\$ 29,521,278</u>	1.49%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities and deferred inflows and outflows in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components - the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of capital outlay certificates payable, compensated absences payable, and early retirement benefits payable have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities and deferred outflows and inflows of resources is its net position.

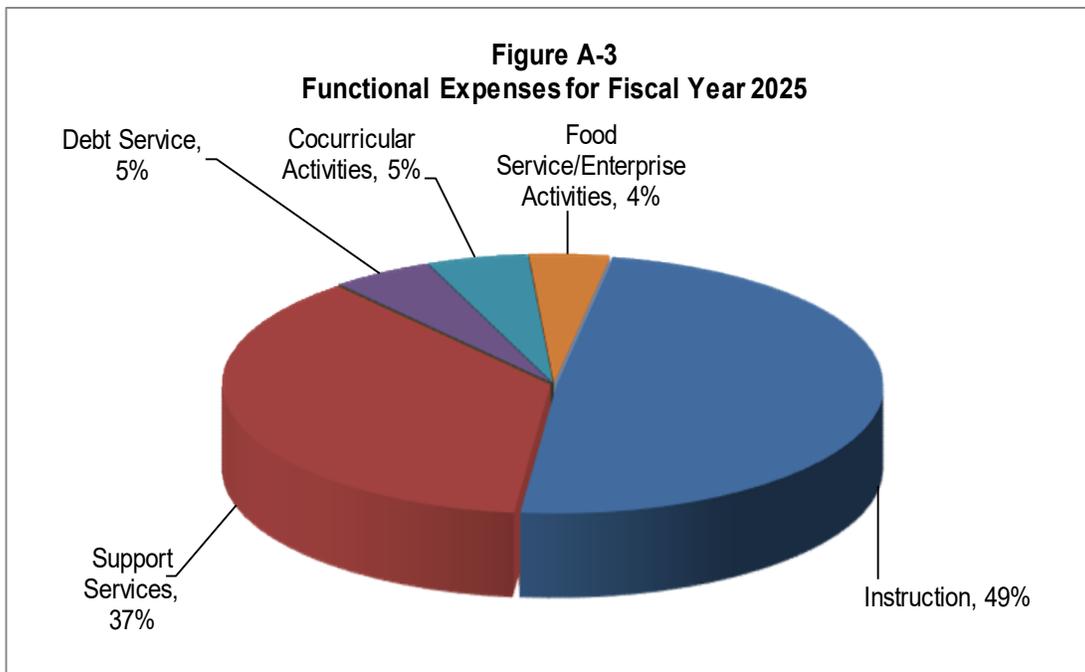
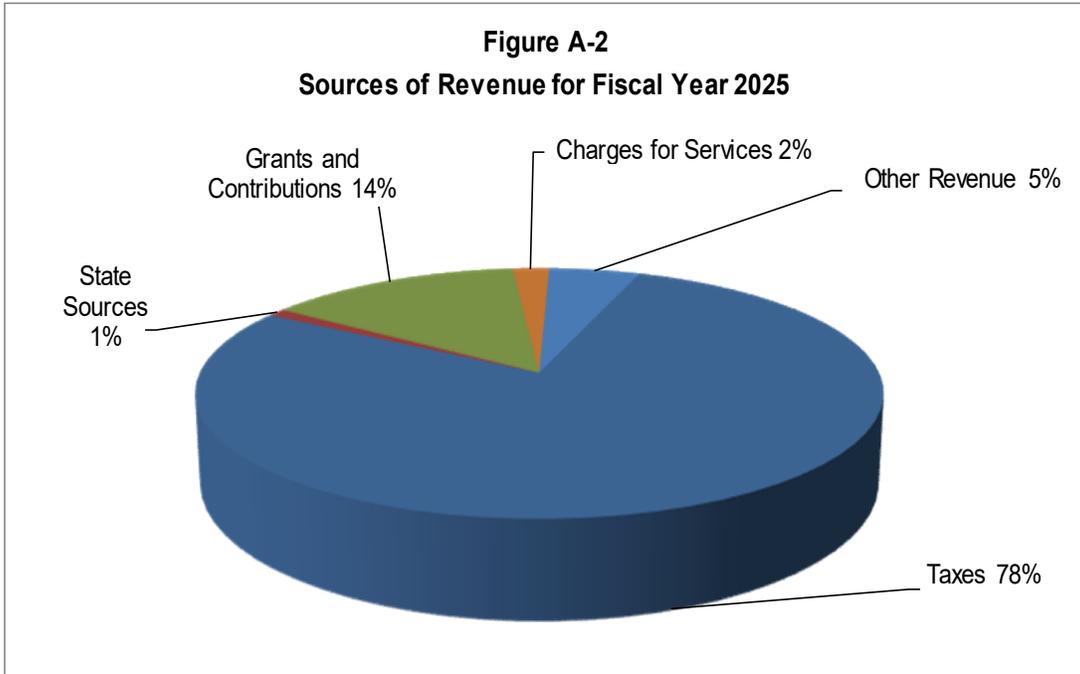
**Custer School District No. 16-1  
Management's Discussion and Analysis (Unaudited)  
June 30, 2025**

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**Changes in Net Position**

The District's revenues totaled \$17,540,461. Approximately 78% of the District's revenue came from property and other taxes with approximately 1% from state sources and 12% coming from grants and contributions, including federal sources (see Figure A-2).

The District's expenses cover a range of services encompassing instruction, support services, and food services. (See Figure A-3)



**Custer School District No. 16-1**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2025**

**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

Table A-2 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the District.

Table A-2  
Custer School District No. 16-1  
Changes in Net Position

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2024	2025	2024	2025	2024	2025	2024 - 2025
<b>Revenues</b>							
Program Revenues:							
Charges for Services	\$ 89,525	\$ 91,256	\$ 259,377	\$ 293,069	\$ 348,902	\$ 384,325	10.15%
Operating Grants and Contributions	1,294,925	716,224	219,105	199,343	1,514,030	915,567	-39.53%
Capital Grants and Contributions	13,930	765,559	-	-	13,930	765,559	5395.76%
General Revenues:							
Taxes	14,447,910	13,667,803	-	-	14,447,910	13,667,803	-5.40%
Revenue State Sources	126,970	140,843	-	-	126,970	140,843	10.93%
Revenue Federal Sources	796,677	778,564	-	-	796,677	778,564	-2.27%
Revenue Intermediate Sources	38,652	45,252	-	-	38,652	45,252	17.08%
Unrestricted Investment							
Earnings	649,219	673,437	-	-	649,219	673,437	3.73%
Other General Revenues	33,581	34,591	-	-	33,581	34,591	3.01%
Transfers	(11,245)	(100,000)	11,245	100,000	-	-	0.00%
Gain (Loss) on Sale of Capital Assets	522,825	135,892	-	(1,372)	522,825	134,520	-74.27%
Total Revenues	<u>18,002,969</u>	<u>16,949,421</u>	<u>489,727</u>	<u>591,040</u>	<u>18,492,696</u>	<u>17,540,461</u>	-5.15%
<b>Expenses</b>							
Instruction	7,788,479	8,023,203	-	-	7,788,479	8,023,203	3.01%
Support Services	6,218,167	5,966,080	-	-	6,218,167	5,966,080	-4.05%
Nonprogrammed Charges	180,833	-	-	-	180,833	-	-100.00%
Debt Service	540,271	872,700	-	-	540,271	872,700	61.53%
Cocurricular Activities	840,289	860,741	-	-	840,289	860,741	2.43%
Community Services	30,870	30,628	-	-	30,870	30,628	-0.78%
Other Business-type Funds	-	-	18,678	116,560	18,678	116,560	524.05%
Food Service	-	-	518,817	482,867	518,817	482,867	-6.93%
Total Expenses	<u>15,598,909</u>	<u>15,753,352</u>	<u>537,495</u>	<u>599,427</u>	<u>16,136,404</u>	<u>16,352,779</u>	1.34%
Increase (Decrease) in Net Position	2,404,060	1,196,069	(47,768)	(8,387)	2,356,292	1,187,682	-49.60%
Net Position - Beginning	<u>26,494,139</u>	<u>28,143,239</u>	<u>238,125</u>	<u>190,357</u>	<u>26,732,264</u>	<u>28,333,596</u>	5.99%
Net Position - Ending	<u>\$ 28,898,199</u>	<u>\$ 29,339,308</u>	<u>\$ 190,357</u>	<u>\$ 181,970</u>	<u>\$ 29,088,556</u>	<u>\$ 29,521,278</u>	1.49%

**Custer School District No. 16-1  
Management's Discussion and Analysis (Unaudited)  
June 30, 2025**

**GOVERNMENTAL ACTIVITIES**

Revenues of the District's governmental revenues decreased by approximately 5.85% to \$16,949,421 and expenses increased by approximately 1% to \$15,753,352.

**BUSINESS-TYPE ACTIVITIES**

Revenues of the District's business-type activities (Food Service and Other Enterprise) increased by approximately 18% to \$591,040 and expenses increased by approximately 12% to \$599,427.

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

The General Fund balance decreased for the year ended June 30, 2025. This was due to expenses increasing more than revenues related to staffing costs. The Special Education fund balance showed a decrease from the prior year due to an increase in staffing costs. The Capital Outlay fund balance showed a decrease from the prior year due to increased building project expenses.

**CAPITAL ASSET ADMINISTRATION**

By the end of FY 2025, the District had invested \$39,074,988 (net of depreciation) in a broad range of capital assets, including land, buildings, various machinery, and equipment. (See Table A-3) This amount represents a net increase (including additions and deductions) of \$5,942,944. The capitalization threshold remains at \$25,000 for all improvements, \$50,000 for all buildings, \$15,500 for subscriptions and leases, \$5,000 for all equipment for governmental activities, and \$1,000 for business-type activities.

**Table A-3  
Custer School District No. 16-1  
Capital Assets (Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2024	2025	2024	2025	2024 - 2025	2024 - 2025
Land	\$ 388,458	\$ 388,458	\$ -	\$ -	\$ -	0.00%
Buildings	30,635,229	30,285,992	-	-	(349,237)	-1.14%
Improvements	131,704	202,589	-	-	70,885	53.82%
Construction in Progress	433,296	5,889,693	-	-	5,456,397	1259.28%
Equipment	1,429,347	2,100,660	41,535	48,327	678,105	46.10%
Subscription Assets	72,475	159,269	-	-	86,794	119.76%
<b>Total Capital Assets (Net)</b>	<b>\$ 33,090,509</b>	<b>\$ 39,026,661</b>	<b>\$ 41,535</b>	<b>\$ 48,327</b>	<b>\$ 5,942,944</b>	<b>17.94%</b>

This year's capital asset purchases were for vehicles, computer equipment, lighting system, playground equipment, school improvements, and costs relating to the CTE building project.

**Custer School District No. 16-1  
Management’s Discussion and Analysis (Unaudited)  
June 30, 2025**

**LONG-TERM DEBT**

At year-end, the District had \$25,704,192 in Capital Outlay Certificates and other long-term obligations. This is a decrease of 4.84% as shown in Table A-4 below.

**Table A-4  
Custer School District No. 16-1  
Outstanding Debt and Obligations**

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2024	2025	2024	2025	2024 - 2025	2024 - 2025
Capital Outlay Certificates	\$ 23,680,000	\$ 22,790,000	\$ -	\$ -	\$ (890,000)	-3.76%
Premiums	1,822,151	1,649,069	-	-	(173,082)	-9.50%
Energy Efficient Loan	166,165	132,930	-	-	(33,235)	-20.00%
Voluntary Separation	651,104	581,390	-	-	(69,714)	-10.71%
Compensated Absences	690,803	550,803	-	-	(140,000)	-20.27%
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 27,010,223</b>	<b>\$ 25,704,192</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,306,031)</b>	<b>-4.84%</b>

The District is liable for the accrued vacation leave to all staff. The accrued leave liability is reported as compensated absences in the above schedule and with the financial statements. The District adopted GASB 101, *Compensated Absences*, as of June 30, 2024, which resulted in changes to the beginning balance of compensated absences and the recording of voluntary separation benefits.

The District made debt service principal and interest payments on Capital Outlay Certificates in the amount of \$923,235 for principal and \$857,317 for interest.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The District has seen a decrease in property taxes from the prior year. However, the District’s enrollment fluctuates throughout the year, making it difficult to budget revenues from year to year.

The following information is provided by the South Dakota Department of Education in the Issue Brief, State Aid to K-12 General Education Funding Formula, revised March 2023.

Funding K-12 Education: The funding formula, which is based on a target statewide average salary for FY2025, is \$62,046. The formula is calculated as follows: For each district, calculate a target student-to-teacher ratio, based on a sliding scale by student enrollment (see below). The district’s target number of teachers is calculated by dividing the district’s current fall enrollment by the target student-to-staff ratio. The district’s total instructional need is calculated by multiplying the district’s target number of teachers by the statewide target for average teacher salary, and by increasing that total by 29% for benefits. The total instructional need is increased by a calculated overhead rate (FY2025 = 38.78%) to cover non-instructional costs. This category includes operating costs as well as salaries and benefits of non-instructional staff, such as administrators, guidance counselors, librarians, and school nurses. These steps calculate the district’s total need for state aid. At this point, local effort is applied against total need, with the State providing any necessary funds to achieve the total need.

**Custer School District No. 16-1  
Management’s Discussion and Analysis (Unaudited)  
June 30, 2025**

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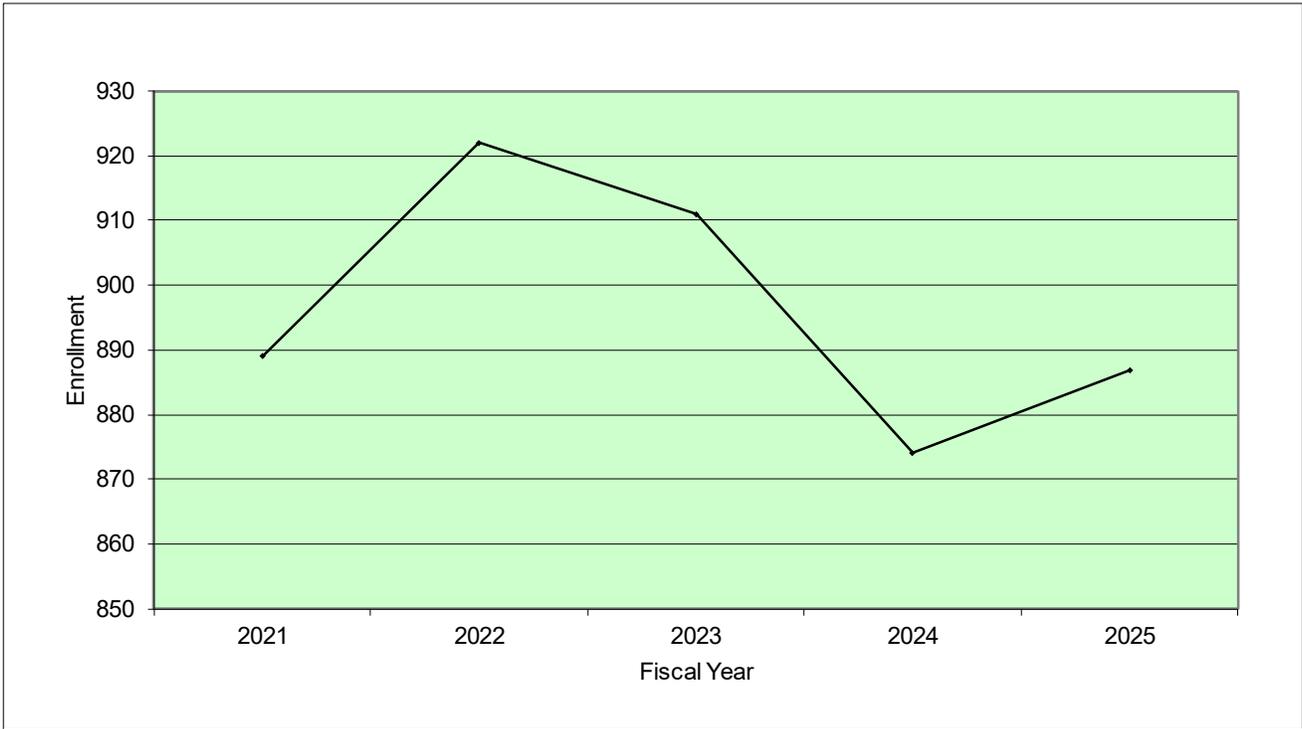
Target Teacher Ratio Factor: The law provides the following sliding scale for the target ratio, based on student enrollments (districts use the current year fall enrollment): Fewer than 200 - 12 students to 1 teacher; Between 200 and 600 - Sliding scale between 12 to 1 and 15 to 1; or Greater than 600 - 15 to 1.

This sliding scale retains the same enrollment thresholds as the small school adjustment of the previous funding formula. The formula does not require school districts to strictly meet the target ratio or to use a certain level of funding for benefits and overhead costs. Those are merely used to calculate total need, and districts retain local control over how to use the dollars they receive.

The capital outlay levy has also been modified to limit future growth in collections, which may impair the District’s ability to fund future capital projects.

Below is a graph that shows the trends in the District’s enrollment for the last five years.

**Enrollment by Fiscal Year**



**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Custer School’s Business Office, 527 Montgomery Street, Custer, SD 57730.

## BASIC FINANCIAL STATEMENTS

**Custer School District No. 16-1**  
**Statement of Net Position**  
**June 30, 2025**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 8,866,321	\$ 149,302	\$ 9,015,623
Permanent Incidental Account	8,000	-	8,000
Investments	6,005,014	-	6,005,014
Taxes Receivable	5,443,899	-	5,443,899
Accounts Receivable	2,284	-	2,284
Due from Other Governments	505,900	-	505,900
Inventories	-	8,274	8,274
Capital Assets:			
Land	388,458	-	388,458
Construction in Progress	5,889,693	-	5,889,693
Buildings	34,804,355	-	34,804,355
Improvements	1,383,912	-	1,383,912
Equipment	4,390,417	231,888	4,622,305
Subscription Assets	238,413	-	238,413
Less: Accumulated Depreciation/Amortization	<u>(8,068,587)</u>	<u>(183,561)</u>	<u>(8,252,148)</u>
Total Capital Assets, Net of Depreciation/Amortization	<u>39,026,661</u>	<u>48,327</u>	<u>39,074,988</u>
Restricted Assets:			
Net Pension Asset	10,257	-	10,257
Investments Restricted for Construction	<u>3,058,603</u>	<u>-</u>	<u>3,058,603</u>
Total Restricted Assets	<u>3,068,860</u>	<u>-</u>	<u>3,068,860</u>
Total Assets	<u>62,926,939</u>	<u>205,903</u>	<u>63,132,842</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension-related Deferred Outflows	<u>1,962,295</u>	<u>-</u>	<u>1,962,295</u>
<b>LIABILITIES</b>			
Accounts Payable	1,202,756	46	1,202,802
Other Current Liabilities	1,340,830	6,467	1,347,297
Unearned Revenue	-	17,420	17,420
Long-term Liabilities:			
Due Within One Year	1,196,398	-	1,196,398
Due in More than One Year	<u>24,507,794</u>	<u>-</u>	<u>24,507,794</u>
Total Liabilities	<u>28,247,778</u>	<u>23,933</u>	<u>28,271,711</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Net Position (Continued)**  
**June 30, 2025**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes Levied for Future Periods	6,001,141	-	6,001,141
Pension-related Deferred Inflows	<u>1,301,007</u>	-	<u>1,301,007</u>
Total Deferred Inflows of Resources	<u>7,302,148</u>	-	<u>7,302,148</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	14,587,592	48,327	14,635,919
Restricted for:			
Capital Outlay	8,289,648	-	8,289,648
Special Education	1,550,000	-	1,550,000
Proportionate Share of Net Pension	671,545	-	671,545
Unrestricted	<u>4,240,523</u>	<u>133,643</u>	<u>4,374,166</u>
<b>TOTAL NET POSITION</b>	<u>\$ 29,339,308</u>	<u>\$ 181,970</u>	<u>\$ 29,521,278</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Activities**  
**For the Year Ended June 30, 2025**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>							
Instruction	\$ 8,023,203	\$ -	\$ 673,093	\$ 765,559	\$ (6,584,551)	\$ -	\$ (6,584,551)
Support Services	5,966,080	45,592	43,131	-	(5,877,357)	-	(5,877,357)
Community Services	30,628	2,670	-	-	(27,958)	-	(27,958)
Cocurricular Activities	860,741	42,994	-	-	(817,747)	-	(817,747)
Interest on Long-term Debt *	872,700	-	-	-	(872,700)	-	(872,700)
Total Governmental Activities	15,753,352	91,256	716,224	765,559	(14,180,313)	-	(14,180,313)

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1  
Statement of Activities (Continued)  
For the Year Ended June 30, 2025**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>BUSINESS-TYPE ACTIVITIES</b>							
Food Service	482,867	267,216	199,343	-	-	(16,308)	(16,308)
Other Enterprise Funds	116,560	25,853	-	-	-	(90,707)	(90,707)
Total Business-type Activities	599,427	293,069	199,343	-	-	(107,015)	(107,015)
Total Primary Government	<u>\$ 16,352,779</u>	<u>\$ 384,325</u>	<u>\$ 915,567</u>	<u>\$ 765,559</u>	<u>(14,180,313)</u>	<u>(107,015)</u>	<u>(14,287,328)</u>
<b>GENERAL REVENUES, TRANSFERS, AND GAINS (LOSSES)</b>							
Taxes:							
					13,314,372	-	13,314,372
					353,431	-	353,431
Revenue from State Sources:							
					140,843	-	140,843
					778,564	-	778,564
					45,252	-	45,252
					673,437	-	673,437
					34,591	-	34,591
					(100,000)	100,000	-
					135,892	(1,372)	134,520
					15,376,382	98,628	15,475,010
<b>CHANGE IN NET POSITION</b>							
					1,196,069	(8,387)	1,187,682
<b>NET POSITION - BEGINNING, AS PREVIOUSLY REPORTED</b>							
					28,898,199	190,357	29,088,556
<b>RESTATEMENT FOR ACCOUNTING CHANGE</b>							
					(754,960)	-	(754,960)
<b>NET POSITION - BEGINNING, AS RESTATED</b>							
					28,143,239	190,357	28,333,596
<b>NET POSITION - ENDING</b>							
					<u>\$ 29,339,308</u>	<u>\$ 181,970</u>	<u>\$ 29,521,278</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Balance Sheet - Governmental Funds**  
**June 30, 2025**

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 2,973,849	\$ 3,985,151	\$ 1,907,321	\$ 8,866,321
Permanent Incidental Account	8,000	-	-	8,000
Investments	3,046,839	2,958,175	-	6,005,014
Taxes Receivable, Current	3,272,232	1,227,623	725,496	5,225,351
Taxes Receivable, Delinquent	135,022	57,669	25,857	218,548
Accounts Receivable, Net	2,284	-	-	2,284
Due from Other Governments	465,638	5,447	34,815	505,900
Restricted Assets:				
Investments Restricted for Construction	-	3,058,603	-	3,058,603
<b>TOTAL ASSETS</b>	<b><u>\$ 9,903,864</u></b>	<b><u>\$ 11,292,668</u></b>	<b><u>\$ 2,693,489</u></b>	<b><u>\$ 23,890,021</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ 98,500	\$ 1,079,916	\$ 24,340	\$ 1,202,756
Contracts Payable	588,766	-	100,801	689,567
Payroll Deductions and Employer Matching Payable	<u>186,950</u>	<u>-</u>	<u>66,353</u>	<u>253,303</u>
<b>Total Liabilities</b>	<b><u>874,216</u></b>	<b><u>1,079,916</u></b>	<b><u>191,494</u></b>	<b><u>2,145,626</u></b>
Deferred Inflows of Resources:				
Property Taxes Levied for Future Periods	3,758,173	1,409,806	833,162	6,001,141
Delinquent Property Taxes Received Outside the Period of Availability	<u>135,022</u>	<u>57,669</u>	<u>25,857</u>	<u>218,548</u>
<b>Total Deferred Inflows of Resources</b>	<b><u>3,893,195</u></b>	<b><u>1,467,475</u></b>	<b><u>859,019</u></b>	<b><u>6,219,689</u></b>
Fund Balances:				
Restricted:				
For Capital Outlay	-	5,686,674	-	5,686,674
For Special Education	-	-	1,642,976	1,642,976
For Capital Project	-	3,058,603	-	3,058,603
Assigned:				
For Next Year's Budget	1,297,049	-	-	1,297,049
Unassigned	<u>3,839,404</u>	<u>-</u>	<u>-</u>	<u>3,839,404</u>
<b>Total Fund Balances</b>	<b><u>5,136,453</u></b>	<b><u>8,745,277</u></b>	<b><u>1,642,976</u></b>	<b><u>15,524,706</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 9,903,864</u></b>	<b><u>\$ 11,292,668</u></b>	<b><u>\$ 2,693,489</u></b>	<b><u>\$ 23,890,021</u></b>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Reconciliation of the Governmental Funds Balance**  
**Sheet to the Statement of Net Position**  
**June 30, 2025**

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Total Fund Balances - Governmental Funds	\$ 15,524,706
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 governmental funds.	39,026,661
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:	
General Obligation Debt Capital Outlay Certificates	(22,790,000)
Compensated Absences	(550,803)
Voluntary Separation Liability	(581,390)
Energy Efficient Loan	(132,930)
Accrued Interest Payable	(397,960)
Assets, including property taxes receivable and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds.	218,548
Proportionate share of the net pension asset is not an asset reported in the governmental funds.	10,257
Pension-related deferred outflows are components of pension liability (asset) and changes are not reported in the funds.	1,962,295
Pension-related deferred inflows are components of pension liability (asset) and changes are not reported in the funds.	(1,301,007)
Unamortized premiums on debt are immediately recognized as revenues in the governmental funds but are not recognized as liabilities in the government-wide statements.	<u>(1,649,069)</u>
Net Position - Governmental Activities	<u>\$ 29,339,308</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2025**

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
<b>REVENUE</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 8,023,901	\$ 3,486,087	\$ 1,687,684	\$ 13,197,672
Gross Receipts Taxes	353,431	-	-	353,431
Penalties and Interest on Taxes	18,014	6,226	2,806	27,046
Cocurricular Activities	42,994	-	-	42,994
Earnings on Deposits	338,664	334,773	-	673,437
Other Local Revenue	67,344	277,757	22,446	367,547
Total Revenue from Local Sources	<u>8,844,348</u>	<u>4,104,843</u>	<u>1,712,936</u>	<u>14,662,127</u>
Revenue from Intermediate Sources:				
County Sources	45,252	-	-	45,252
Revenue from State Sources:				
Unrestricted Grants-in-aid	140,843	225,000	-	365,843
Restricted Grants-in-aid	8,069	-	-	8,069
Total Revenue from State Sources	<u>148,912</u>	<u>225,000</u>	<u>-</u>	<u>373,912</u>
Revenue from Federal Sources:				
Unrestricted Grants-in-aid	778,564	-	-	778,564
Restricted Grants-in-aid	425,602	262,802	275,616	964,020
Total Revenue from Federal Sources	<u>1,204,166</u>	<u>262,802</u>	<u>275,616</u>	<u>1,742,584</u>
Total Revenue	<u>10,242,678</u>	<u>4,592,645</u>	<u>1,988,552</u>	<u>16,823,875</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds (Continued)**  
**For the Year Ended June 30, 2025**

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
<b>EXPENDITURES</b>				
Instructional Services:				
Regular Programs	5,031,653	122,572	-	5,154,225
Special Programs	251,775	37,623	1,869,732	2,159,130
Total Instructional Services	<u>5,283,428</u>	<u>160,195</u>	<u>1,869,732</u>	<u>7,313,355</u>
Support Services:				
Pupils	455,419	-	405,317	860,736
Instructional Staff	519,082	24,704	17,280	561,066
General Administration	820,480	-	-	820,480
School Administration	679,332	-	-	679,332
Business	2,072,239	516,193	-	2,588,432
Special Education	-	-	289,111	289,111
Total Support Services	<u>4,546,552</u>	<u>540,897</u>	<u>711,708</u>	<u>5,799,157</u>
Cocurricular Activities:				
Male Activities	104,659	-	-	104,659
Female Activities	75,642	-	-	75,642
Transportation	209,638	-	-	209,638
Combined Activities	287,985	88,410	-	376,395
Total Cocurricular Activities	<u>677,924</u>	<u>88,410</u>	<u>-</u>	<u>766,334</u>
Other Nonprogrammed Costs:				
Voluntary Separation Payments	51,766	-	17,948	69,714
Debt Services	-	1,802,667	-	1,802,667
Capital Outlay	-	6,851,544	-	6,851,544
Total Expenditures	<u>10,559,670</u>	<u>9,443,713</u>	<u>2,599,388</u>	<u>22,602,771</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds (Continued)**  
**For the Year Ended June 30, 2025**

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(316,992)</u>	<u>(4,851,068)</u>	<u>(610,836)</u>	<u>(5,778,896)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In (Out)	150,000	(250,000)	-	(100,000)
Sale of Surplus Property	15,000	500	-	15,500
Compensation for Loss of General Capital Assets	<u>-</u>	<u>139,162</u>	<u>-</u>	<u>139,162</u>
Net Other Financing Sources (Uses)	<u>165,000</u>	<u>(110,338)</u>	<u>-</u>	<u>54,662</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(151,992)</u>	<u>(4,961,406)</u>	<u>(610,836)</u>	<u>(5,724,234)</u>
<b>FUND BALANCE - BEGINNING</b>	<u>5,288,445</u>	<u>13,706,683</u>	<u>2,253,812</u>	<u>21,248,940</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 5,136,453</u>	<u>\$ 8,745,277</u>	<u>\$ 1,642,976</u>	<u>\$ 15,524,706</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended June 30, 2025**

Net Change in Fund Balance - Total Governmental Funds	\$ (5,724,234)
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 useful lives and reported as depreciation/amortization expense. This is the amount by which capital asset purchases exceeded depreciation/amortization in the current period.	5,954,922
Governmental funds only report proceeds from the sale of capital assets. However, the Statement of Activities reports gains and losses on capital assets. This is the amount in which retired capital assets book value exceeded accumulated depreciation.	(18,770)
The recognition of revenues in the governmental funds differs from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available."	89,653
Governmental funds do not reflect the change in compensated absences and voluntary separation but the Statement of Activities reflects the change in these accruals through expenses.	209,714
Repayment of general obligation debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	923,235
Unamortized discounts/premiums associated with general obligation debt are recorded as expenditures or other financing sources in the governmental funds. However, these items are amortized over the life of the debt in the governmental activities. This is the amount by which amortization exceeded deferrals in the current period.	173,082
Accrued interest expense reported in the Statement of Activities does not require the use of current financial resources and is not reported in the funds.	(166,350)
Pension expenses in the Statement of Activities that do not provide current financial resources are not reported as expenses in the funds.	<u>(245,183)</u>
Change in Net Position of Governmental Activities	<u>\$ 1,196,069</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2025**

	Enterprise Funds		Totals
	Food Service Fund	Other Enterprise Fund (Non-major)	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 122,418	\$ 26,884	\$ 149,302
Inventory	8,274	-	8,274
Total Current Assets	130,692	26,884	157,576
Noncurrent Assets:			
Machinery and Equipment - Local Funds	231,888	-	231,888
Less: Accumulated Depreciation	(183,561)	-	(183,561)
Total Noncurrent Assets	48,327	-	48,327
<b>TOTAL ASSETS</b>	<b>179,019</b>	<b>26,884</b>	<b>205,903</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	46	-	46
Payroll Deductions and Employer Matching Payable	-	6,467	6,467
Unearned Revenue	17,420	-	17,420
<b>TOTAL LIABILITIES</b>	<b>17,466</b>	<b>6,467</b>	<b>23,933</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	48,327	-	48,327
Unrestricted	113,226	20,417	133,643
<b>TOTAL NET POSITION</b>	<b>\$ 161,553</b>	<b>\$ 20,417</b>	<b>\$ 181,970</b>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Revenues, Expenses, and Changes in Fund**  
**Net Position - Proprietary Funds**  
**For the Year Ended June 30, 2025**

	Enterprise Funds		Totals
	Food Service Fund	Other Enterprise Fund (Non-major)	
<b>OPERATING REVENUE</b>			
Sales to Pupils	\$ 264,116	\$ -	\$ 264,116
Other Operating Revenue	3,100	25,853	28,953
Total Operating Revenue	<u>267,216</u>	<u>25,853</u>	<u>293,069</u>
<b>OPERATING EXPENSES</b>			
Salaries	-	81,600	81,600
Employee Benefits	-	32,164	32,164
Purchased Services	460,795	-	460,795
Supplies	1,334	2,796	4,130
Cost of Sales - Donated Food	14,856	-	14,856
Depreciation	5,882	-	5,882
Total Operating Expenses	<u>482,867</u>	<u>116,560</u>	<u>599,427</u>
<b>OPERATING LOSS</b>	<u>(215,651)</u>	<u>(90,707)</u>	<u>(306,358)</u>
<b>NONOPERATING REVENUE</b>			
State Sources:			
Cash Reimbursements	814	-	814
Federal Sources:			
Cash Reimbursements	182,654	-	182,654
Donated Food	15,875	-	15,875
Total Nonoperating Revenues	<u>199,343</u>	<u>-</u>	<u>199,343</u>
<b>INCOME BEFORE CONTRIBUTIONS, LOSS AND TRANSFERS</b>	<u>(16,308)</u>	<u>(90,707)</u>	<u>(107,015)</u>
Transfers In	-	100,000	100,000
Loss on Disposal of Capital Assets	(1,372)	-	(1,372)
<b>CHANGE IN NET POSITION</b>	(17,680)	9,293	(8,387)
<b>NET POSITION - BEGINNING</b>	<u>179,233</u>	<u>11,124</u>	<u>190,357</u>
<b>NET POSITION - ENDING</b>	<u>\$ 161,553</u>	<u>\$ 20,417</u>	<u>\$ 181,970</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2025**

	Enterprise Funds		Totals
	Food Service Fund	Other Enterprise Fund (Non-major)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	\$ 248,477	\$ 25,853	\$ 274,330
Payments to Employees for Services	-	(108,011)	(108,011)
Payments to Suppliers	(463,087)	(2,796)	(465,883)
Net Cash Used by Operating Activities	(214,610)	(84,954)	(299,564)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating Subsidies	183,469	-	183,469
Transfer in From Other Funds	-	100,000	100,000
Net Cash Provided by Noncapital Financing Activities	183,469	100,000	283,469
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of Capital Assets	(14,046)	-	(14,046)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(45,187)	15,046	(30,141)
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	167,605	11,838	179,443
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 122,418	\$ 26,884	\$ 149,302
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>			
Operating Loss	\$ (215,651)	\$ (90,707)	\$ (306,358)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:			
Depreciation Expense	5,882	-	5,882
Cost of Sales - Donated Food	14,856	-	14,856
Change in Assets and Liabilities:			
Accounts Payable	(958)	-	(958)
Payroll Liabilities	-	5,753	5,753
Unearned Revenue	(18,739)	-	(18,739)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	\$ (214,610)	\$ (84,954)	\$ (299,564)

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Net Position - Fiduciary Funds**  
**June 30, 2025**

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	<u>Private-Purpose Trust Fund</u>	<u>Custodial Funds</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 11,000	\$ 114,655
<b>TOTAL ASSETS</b>	<u>\$ 11,000</u>	<u>\$ 114,655</u>
<b>NET POSITION</b>		
Restricted for:		
Individuals and Organizations	\$ 11,000	\$ 114,655
<b>TOTAL NET POSITION</b>	<u>\$ 11,000</u>	<u>\$ 114,655</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Statement of Changes in Net Position - Fiduciary Funds**  
**June 30, 2025**

	<u>Private-Purpose Trust Fund</u>	<u>Custodial Funds</u>
<b>ADDITIONS</b>		
Contributions and Donations	\$ 7,000	\$ 288,745
<b>DEDUCTIONS</b>		
Payments for Student Activities	-	309,067
Payments for Scholarships	<u>3,500</u>	<u>-</u>
Total Deductions	<u>3,500</u>	<u>309,067</u>
<b>CHANGE IN NET POSITION</b>	3,500	(20,322)
<b>NET POSITION - BEGINNING</b>	<u>7,500</u>	<u>134,977</u>
<b>NET POSITION - ENDING</b>	<u>\$ 11,000</u>	<u>\$ 114,655</u>

The accompanying notes are an integral part of this statement.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the District conform to generally accepted accounting principles applicable to government entities in the United States of America.

**A. REPORTING ENTITY**

The reporting entity of Custer School District No. 16-1 (the District), 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.

The District is a public education agency operating under the applicable laws and regulations of the State of South Dakota. It is governed by a seven-member Board of Trustees (the Board) elected by registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has accountability for fiscal matters. There are no component units included within the reporting entity.

The District participates in two cooperative service units with several other school districts. See Note 11 - Joint Ventures for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit but are discussed in the notes because of the nature of their relationship with the District.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

*Government-wide Financial Statements*

The Statement of Net Position and the Statement of Activities display information about the District as a whole. They include all funds of the District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Position reports all financial and capital resources in a net position form (assets and deferred inflows of resources minus liabilities and deferred outflows of resources equal net position). Net positions are displayed in three components, as applicable: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District'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.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Fund Financial Statements*

The financial statements of the District 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, deferred inflows and outflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Major individual governmental and proprietary funds are reported in separate columns.

**C. FUND TYPES AND MAJOR FUNDS**

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is a primary operating fund of the District or if it meets the following criteria:

1. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 year to year or because of public interest in the fund's operations.

The funds of the District are described below within their respective fund types:

**Governmental Funds**

*General Fund* - The General Fund is established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the District, excluding Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

*Special Revenue Funds* - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The District's special revenue funds are as follows:

*Capital Outlay Fund* - A fund established by SDCL 13-16-6 to meet expenditures that result in the lease of, acquisitions, or additions to real property, plant or equipment, textbooks, and instructional software. This fund is financed by property taxes and is a major fund.

*Special Education Fund* - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed primarily by property taxes and state and federal grants. This is a major fund.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary Funds

*Enterprise Funds* - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met:

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit, even if that government is not expected to make any payments, is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity).
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District's enterprise funds are as follows:

*Food Service Fund* - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

*Preschool Program Fund* - A fund used to record financial transactions related to the preschool program. This fund is financed by user charges. This is not a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

*Custodial Funds* - Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private purpose trust funds. The District maintains custodial funds to hold assets as an agent in a trustee capacity for various classes, clubs, and so on.

*Private-Purpose Trust Funds* - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one trust established by donors to provide college scholarships to graduating students.

**D. 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.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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 funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

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 generally 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, generally are recognized when they become measurable and available. “Available” means resources are collected or will 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 District considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Receivables, such as taxes receivable and grants receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

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

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

**E. INTERFUND ELIMINATIONS AND RECLASSIFICATIONS**

In the process of aggregating data for the government-wide financial statements, the District has charged certain “centralized expenses”, including an administrative overhead component, as direct expenses to programs in order to show all expenses that are associated with a service, program, or department. This process minimizes the doubling-up effect on internal activity.

**F. CASH AND CASH EQUIVALENTS**

The District pools its cash resources for deposit purposes. Accordingly, the enterprise funds have access to their cash resources on demand. All reported enterprise fund deposit balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. INVENTORY**

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out for enterprise fund inventories and the average cost for governmental fund inventories.

Donated commodities are valued at the estimated market value based on the USDA price list at the date of receipt.

In the government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed. Inventories reported in the fund financial statements are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Nonspendable fund balances related to inventory are reported net of the related liability (accounts payable).

**H. RESTRICTED ASSETS**

The District has reported restricted assets in the Capital Outlay Fund and on the Statement of Net Position. Balances include debt proceeds to be used for the construction of the Career and Technical Education Building. The restricted investments include money markets and U.S. Treasury notes bearing various interest rates and maturing during the fiscal year ending June 30, 2026. See Note 2 for additional information related to investments held.

**I. CAPITAL ASSETS**

Capital assets include land, buildings, improvements, 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.

The accounting treatment of 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*

All capital assets are valued at historical cost or estimated historical cost if the actual historical cost is not available. Donated capital assets are valued at their acquisition value on the date donated. Interest costs incurred during the construction of capital assets are not capitalized.

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

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Land	\$ All	-----
Buildings	50,000	33-100 yrs
Improvements	25,000	5-25 yrs
Equipment (governmental activities)	5,000	5-20 yrs
Equipment (proprietary funds)	1,000	5-20 yrs
Intangible Lease Assets	15,500	5-25 yrs
Intangible Subscription Assets	15,500	5-25 yrs

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Depreciation and amortization expense is calculated using the straight-line and composite methods. Depreciation and amortization of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities. Land is an inexhaustible capital asset and is not depreciated.

*Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the 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 financial statements.

**J. 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.

*Government-wide Financial Statements*

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. Long-term liabilities consist of compensated absences, voluntary separation, loans, and capital outlay certificates.

*Compensated Absences Payable* - Compensated absences payable is the annual leave earned by employees. Vacation leave is earned by twelve-month employees at varying rates depending on years of service. Sick leave is earned by the employees at the rate of one day for each month worked. Upon termination, employees are entitled to receive compensation for their accrued annual leave and 50% compensation for sick leave balances. Accrued leave payable balances are reported in Note 6 as compensated absences. For employees normally paid out of the governmental funds, these amounts are charged as an expenditure at the time of termination or when the benefit becomes payable to the employee.

*Voluntary Separation Liability* - Voluntary separation payments are available to teachers and administrators who meet certain criteria. Upon retirement, the employee is entitled to receive an amount calculated by taking 5% of the current salary of the employee multiplied by the number of full years (up to a maximum of 20 years) of service in the District. At June 30, 2025, there were seven employees entitled to receive such payments. Voluntary separation benefits are paid in three annual installments following the separation date of the employee. Costs attributable to employees in general education roles are paid from the General Fund, while costs attributable to employees in special education roles during their tenure with the District are paid from the Special Education Fund.

*Fund Financial Statements*

In the 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, the same as in the government-wide financial statements.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Leases**

*Lessee:*

The District may be a lessee for noncancelable leases of equipment, though as of June 30, 2025, the District was not a lessee. The District recognizes a lease liability and an intangible right-to-use asset (lease asset) in the government-wide financial statements. The District recognizes right-to-use lease assets and lease liabilities with an initial, individual value of \$15,500 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

*Lessor:*

The District may be a lessor for a noncancellable lease of property, though as of June 30, 2025, the District was not a lessor. The District recognizes a lease receivable and deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of the lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

The District may enter into subscription-based information technology arrangements (SBITAs) with vendors to use vendor-provided information technology. The District recognizes a subscription liability and an intangible right-to-use subscription asset (subscription asset) in the government-wide financial statements. The District recognizes subscription liabilities with an initial, individual value of \$15,500 or more.

At the commencement of a subscription, the District initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of the subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to the subscription include how the District determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The District uses the interest rate charged by the vendor as the discount rate. When the interest rate charged by the vendor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for subscriptions.
- The subscription term includes the noncancellable period of the subscription. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with other capital assets and subscription liabilities are reported with long-term debt on the statement of net position.

**M. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

The District reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. The only deferred outflow of resources reported is a deferred amount arising from the District's pension plan for qualified retirees, as discussed in Note 10. There are no deferred outflows of resources reported in the governmental funds balance sheet.

The District's financial statements report a separate section for deferred inflows of resources. This section reflects a decrease in net position that applies to a future period or periods. Under the modified accrual basis of accounting, governmental fund revenues are not recognized until available (collected no later than 60 days after the end of the District's fiscal year). The District reports the following as deferred inflows of resources in the governmental funds: property taxes levied but not collected within the available period and property taxes collected within the available period that are intended to finance the next fiscal year. In the government-wide financial statements, the District reports deferred inflows of resources for the property taxes that are levied for future periods and amounts related to the pension plan. The District has no deferred inflows of resources in the proprietary fund statements for the current year.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. NET POSITION AND FUND BALANCE**

*Government-wide Financial Statements*

Net Position includes the following three components:

*Net Investment in Capital Assets* - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization (if applicable) and reduced by the outstanding balances of capital outlay certificates or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* - Consists of net position with constraints placed on its use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments or (b) law through constitutional provisions or enabling legislation.

*Unrestricted* - Represents all other net positions that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the District’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes where both restricted and unrestricted net position are available.

*Fund Financial Statements*

In accordance with Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

*Nonspendable* - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

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

*Assigned* - Includes fund balance amounts that are intended to be used for specific purposes that are not considered restricted. Fund balance may be assigned by the School Board or management of the District.

*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.

The District uses restricted amounts first when both the restricted and the unrestricted fund balances are available unless a legal document, such as a contract or a grant agreement requiring dollar-for-dollar spending, prohibits it. Additionally, the District would use assigned amounts before unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a minimum fund balance policy.

**O. PROPRIETARY FUND REVENUE AND EXPENSE CLASSIFICATIONS**

In the proprietary fund 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, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**P. PROGRAM REVENUES**

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

*Charges for Services* - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

*Program Revenues - Operating Grants and Contributions* - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

*Program Revenues - Capital Grants and Contributions* - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

**Q. UNEARNED REVENUE**

The proprietary fund reports meal tickets that have been purchased but not yet redeemed as unearned revenue.

**R. PENSIONS**

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Statutes impose various restrictions on deposits and investments. These restrictions are summarized below:

*Deposits* - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. 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 that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA", or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*Fair Value Measurement* - The District 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. The investments held by the District at June 30, 2025 were:

Investment	Credit Rating	Fair Value	Maturities			Valuation Level
			< 1 Year	1 - 5 Years	> 5 Years	
Money Market	Unrated	\$ 2,576,319	\$ 2,576,319	\$ -	\$ -	1
U.S. Treasury Notes	N/A	6,487,298	6,487,298	-	-	1
		<u>\$ 9,063,617</u>	<u>\$ 9,063,617</u>	<u>\$ -</u>	<u>\$ -</u>	

The fair value of each investment shown previously was measured using the input guidance and valuation techniques. Specific valuation information is as follows:

- U.S. Treasury Notes - Many of these are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange.

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

*Custodial Credit Risk - Deposits* - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2025, the District's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

*Custodial Credit Risk - Investments* - The risk that, in the event of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

*Concentration of Credit Risk* - The District places no limit on the amount that may be deposited with any one financial institution or invested with any one issuer.

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

*Assignment of Investment Income* - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from investments to the fund making the investment. The District also reports deposits at cost plus interest and credits all income from deposits to the fund making the deposit with the exception of the general checking account whose interest income is credited to the General Fund.

**NOTE 3 - DUE FROM OTHER GOVERNMENTS**

As of June 30, 2025, amounts due from other governments as reported in the financial statements consisted of the following:

SD Department of Education	\$ 179,698
Custer County	62,395
State of South Dakota	263,807
	<u>\$ 505,900</u>

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 4 - CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2025 is as follows:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025
Governmental Activities:				
Capital Assets Not Being Depreciated/Amortized:				
Land	\$ 388,458	\$ -	\$ -	\$ 388,458
Construction in Progress	433,296	5,456,397	-	5,889,693
Total Capital Assets Not Being Depreciated/Amortized	<u>821,754</u>	<u>5,456,397</u>	<u>-</u>	<u>6,278,151</u>
Capital Assets Being Depreciated/Amortized:				
Buildings	34,804,355	-	-	34,804,355
Improvements	1,299,711	84,201	-	1,383,912
Equipment	3,335,706	1,173,637	118,926	4,390,417
Subscription Assets	101,104	137,309	-	238,413
Total Capital Assets Being Depreciated/Amortized	<u>39,540,876</u>	<u>1,395,147</u>	<u>118,926</u>	<u>40,817,097</u>
Less Accumulated Depreciation/Amortization for:				
Equipment	1,906,359	483,554	100,156	2,289,757
Buildings	4,169,126	349,237	-	4,518,363
Improvements	1,168,007	13,316	-	1,181,323
Subscription Assets	28,629	50,515	-	79,144
Total Accumulated Depreciation/Amortization	<u>7,272,121</u>	<u>896,622</u>	<u>100,156</u>	<u>8,068,587</u>
Total Capital Assets Being Depreciated/Amortized, Net	<u>32,268,755</u>	<u>498,525</u>	<u>18,770</u>	<u>32,748,510</u>
Net Capital Assets	<u>\$ 33,090,509</u>	<u>\$ 5,954,922</u>	<u>\$ 18,770</u>	<u>\$ 39,026,661</u>
Business-type Activities:				
Equipment	\$ 224,651	\$ 14,046	\$ 6,809	\$ 231,888
Less: Accumulated Depreciation	<u>183,116</u>	<u>5,882</u>	<u>5,437</u>	<u>183,561</u>
Net Capital Assets	<u>\$ 41,535</u>	<u>\$ 8,164</u>	<u>\$ 1,372</u>	<u>\$ 48,327</u>

Depreciation/amortization expense was charged to governmental functions as follows:

Instruction	\$ 603,817
Support Services	176,142
Community Services	30,628
Cocurricular Activities	86,035
	<u>\$ 896,622</u>

All depreciation expense related to the business-type activities was for the Food Service Fund.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 4 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

Construction in progress represents architecture, engineering, and contractor costs related to the Career and Technical Education Building addition to the high school. The project is expected to cost over \$8.5 million and will be funded with the 2024 capital outlay certificate proceeds of \$8 million and up to \$1 million of Impact Aid funds. The project is expected to be completed during the year ended June 30, 2026.

**NOTE 5 - SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

The District has entered into various subscription agreements for software. The District prepaid the total cost of the arrangements, and as a result, no liability is accrued as of June 30, 2025. The value of the right-to-use subscription asset as of June 30, 2025 was \$238,413, with accumulated amortization of \$79,144. Subscriptions are set to mature at various dates through 2031.

**NOTE 6 - LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2025:

	Balance June 30, 2024	Increase	Decrease	Balance June 30, 2025	Amounts Due Within 1 Year
Governmental Activities:					
Capital Outlay Certificates	\$ 23,680,000	\$ -	\$ 890,000	\$ 22,790,000	\$ 930,000
Bond Premiums	1,822,151	-	173,082	1,649,069	-
Energy Efficient Loan	166,165	-	33,235	132,930	33,235
Subtotal	25,668,316	-	1,096,317	24,571,999	963,235
Other Liabilities:					
Compensated Absences	690,803	-	140,000	550,803	40,100
Voluntary Separation Liability	651,104	-	69,714	581,390	193,063
<b>Total Long-term Liabilities</b>	<b><u>\$ 27,010,223</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,306,031</u></b>	<b><u>\$ 25,704,192</u></b>	<b><u>\$ 1,196,398</u></b>

Capital outlay certificates and other general obligations at June 30, 2025 were comprised of the following:

Energy Efficient Loan, Bearing Interest at a Rate of 0%, Due 7/31/2028	\$ 132,930
Series 2020A Capital Outlay Certificates, Bearing Interest at a Variable Rate between 2% and 4%, Due 1/15/2040	9,800,000
Series 2020B Capital Outlay Certificates, Bearing Interest at a Variable Rate between 2% and 4%, Due 1/1/2030	2,765,000
Series 2021 Capital Outlay Certificates, Bearing Interest at a Fixed Rate of 4%, Due 1/15/2030	2,225,000
Series 2024 Capital Outlay Certificates, Bearing Interest at a Fixed Rate of 5%, Due 7/15/2043	8,000,000
	<u>22,922,930</u>
Net Bond Premiums	1,649,069
	<u>\$ 24,571,999</u>

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
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**NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)**

The annual debt service requirements to maturity for all long-term debt outstanding as of June 30, 2025, excluding compensated absences, are as follows:

Year Ending June 30,	Capital Outlay Certificates and Loan Obligations		Voluntary Separation Costs
	Principal	Interest	
2026	\$ 963,235	\$ 856,750	\$ 193,063
2027	998,235	823,525	163,789
2028	1,028,235	789,125	112,269
2029	1,068,225	755,850	112,269
2030	1,065,000	723,600	-
2031-2035	5,425,000	2,970,900	-
2036-2040	6,295,000	2,097,800	-
2041-2045	6,080,000	626,750	-
Total Payments	\$ 22,922,930	\$ 9,644,300	581,390
Less: Interest			-
Present Value of Voluntary Separation Benefits			\$ 581,390

Compensated absences liability includes the amount owed by the District to employees for their accrued leave balances, including the District's share of payroll deductions.

Payments of all capital outlay certificates and loan obligations are made from the Capital Outlay Fund. Compensated absence payments are made from the fund that the related payroll expenditures are charged.

For the year ended June 30, 2025, payments of voluntary separation benefits were made out of the General Fund in the amount of \$69,714.

**NOTE 7 - RESTRICTED NET POSITION**

The following table shows the components of restricted net position for the year ended June 30, 2025 as presented on the Statement of Net Position:

Major Purpose	Restricted By	
Capital Outlay	Law	\$ 8,289,648
Special Education	Law	1,550,000
Proportionate Share of Net Pension	Law	671,545
		\$ 10,511,193

Although not restricted, the Food Service Fund's unrestricted net position in the amount of \$113,226 is limited by Federal Regulations as the District's food services are primarily funded with federal grants.

**NOTE 8 - PROPERTY TAX**

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the District's taxes and remits them to the District.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 8 - PROPERTY TAX (CONTINUED)**

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. The portion of property tax receivable that is not intended to be used to finance the current year's appropriations is not susceptible to accrual and is reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

State statute allows the General Fund tax rates to be increased by special election of the voters.

**NOTE 9 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2025 were as follows:

Transfers from:	Transfers to:	
	General Fund	Preschool Program Fund
General Fund	\$ -	\$ 100,000
Capital Outlay Fund	250,000	-

The transfer from the General Fund to the Preschool Program Fund was made to cover expenses. The transfer from the Capital Outlay Fund to the General Fund was made as allowed by South Dakota statute to subsidize operations.

**NOTE 10 - PENSION PLAN**

Plan Information

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined-benefit pension plan designed with several defined contribution plan-type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. Authority for establishing, administering, and amending plan provisions is 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.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

Benefits Provided

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

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 10 - PENSION PLAN (CONTINUED)**

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

Members hired on or after July 1, 2017 are Generational members. Class A Generational members and Class B Generational judicial members retiring 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% joint and survivor benefit, or a 100% joint and survivor benefit. All Generational retirements 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% of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 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 if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater than or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5% to 0.0%

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the cost-of-living adjustment.

**Contributions**

Per SDCL 3-12, contribution requirements of the active employees and 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 District's share of contributions to the SDRS for the fiscal years ended June 30, 2025, 2024, and 2023 was \$449,910, \$426,541, and \$399,383, respectively, equal to the required contributions each year.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 10 - PENSION PLAN (CONTINUED)**

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

At June 30, 2024, SDRS is 100.03% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the District as of this measurement period ending June 30, 2024 and reported by the District as of June 30, 2025 are as follows:

Proportionate Share of Pension Liability	\$ 37,802,278
Less: Proportionate Share of Net Pension Restricted for Pension Benefits	<u>37,812,535</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (10,257)</u>

At June 30, 2025, the District reported an asset of \$10,257 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2024. The net pension asset was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2024, the District's proportion was 0.2533960%, which is a decrease of 0.0046610% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the District recognized pension expense of \$245,183. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 949,843	\$ -
Changes in Assumption	169,114	1,289,086
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	386,370	-
Changes in Proportion and Difference Between District Contributions and Proportionate Share of Contributions	7,058	11,921
District Contributions Subsequent to the Measurement Date	<u>449,910</u>	<u>-</u>
	<u>\$ 1,962,295</u>	<u>\$ 1,301,007</u>

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 10 - PENSION PLAN (CONTINUED)**

\$449,910 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30,		
2026	\$	(364,465)
2027		492,454
2028		51,926
2029		31,463
2030		-
Thereafter		-
	<u>\$</u>	<u>211,378</u>

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service.	
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%	
Future COLA's	1.71%	

Mortality Rates

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

*Active and Terminated Vested Members:*

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

*Retired Members:*

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

*Beneficiaries:*

- PubG-2010 contingent survivor mortality table

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 10 - PENSION PLAN (CONTINUED)**

*Disabled Members:*

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

The actuarial assumptions used in the June 30, 2024 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for the 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, 2024 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	56.3%	3.6%
Investment Grade Debt	22.8%	2.3%
High Yield Debt	7.0%	2.8%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. 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 liability (asset).

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

**NOTE 10 - PENSION PLAN (CONTINUED)**

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, 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 one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 5,212,259	\$ (10,257)	\$ (4,283,903)

Pension Plan Fiduciary Net Position

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

**NOTE 11 - JOINT VENTURES**

The District participates in the Black Hills Special Services Cooperative (the Co-op), a cooperative service unit formed for the purpose of providing special education and other services to the member school districts. During the year ended June 30, 2025, the District paid \$161,685 for services provided by the Co-op.

The members of the Co-op and their relative percentage participation in the Co-op are as follows:

Belle Fourche School District	8.33%
Custer School District	8.33%
Douglas School District	8.33%
Edgemont School District	8.33%
Haakon School District	8.33%
Hill City School District	8.33%
Hot Springs School District	8.33%
Lead/Deadwood School District	8.33%
Meade School District	8.33%
Oelrichs School District	8.33%
Rapid City School District	8.33%
Spearfish School District	8.33%

The Co-op's governing board is comprised of one representative, a School Board member, from each member school district. The board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The District retains no equity in the net position of the Co-op but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above.

Separate financial statements may be obtained by writing to BHSSC, PO Box 218, Sturgis, SD 57785. At June 30, 2025, this joint venture had total assets of \$9,859,150, liabilities of \$861,211, deferred inflows of \$614,857, and net position of \$8,383,082.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 11 - JOINT VENTURES (CONTINUED)**

The District also participates in the Black Hills Educational Benefits Cooperative (BHEBC), a cooperative service unit formed for the purpose of providing health insurance services to the member school districts. The relative percentage of participation of each member in BHEBC was not deemed to be a measurable matter.

The members of BHEBC are Black Hills Special Service Cooperative, New Underwood School District, Wall School District, Custer School District, Oelrichs School District, and Belle Fourche School District.

BHEBC's governing board is composed of two representatives from each member school district. The board is responsible for adopting BHEBC's budget and setting service fees at a level adequate to fund the adopted budget. Members are not liable for claims in excess of BHEBC's assets.

Separate financial statements may be obtained by writing to BHEBC, PO Box 218, Sturgis, SD 57785. At June 30, 2025, this joint venture had audited total assets of \$6,933,881, liabilities of \$1,027,940, and equity of \$5,905,941.

**NOTE 12 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2025, the District managed its risks as follows:

Employee Health Insurance

The District participates in the Black Hills Educational Benefits Cooperative, a cooperative educational service unit formed for the purpose of providing health and welfare benefits. The District pays an annual premium to the cooperative to provide coverage for health insurance. Under this agreement, the cooperative provides coverage for up to a maximum of \$100,000 per individual per policy year. There is no lifetime limit. The Cooperative has purchased additional insurance coverage for claims in excess of the above coverage.

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

Liability Insurance

The District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool (the Fund) which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
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**NOTE 12 - RISK MANAGEMENT (CONTINUED)**

The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report and to cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium to provide worker's compensation coverage for its employees under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The District may also be responsible for additional assessments in the event the Fund is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the Fund of all participants for the year in which the shortfall occurs. The Fund provides loss coverage to all participants through Fund retained risk retention and through insurance coverage purchased by the Fund in excess of the retained risk. The Fund pays the first \$500,000 of any claim per individual. The Fund has reinsurance which covers up to \$1,000,000 per individual incident. There was no additional assessment charged to pool members for the year ended June 30, 2025.

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

**NOTE 13 - CONCENTRATIONS**

The District is dependent upon program revenues and operating revenues from the State of South Dakota for its primary existence.

**NOTE 14 - IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

During the year ended June 30, 2025, the District implemented GASB 101: *Compensated Absences*. This standard required the District to recognize a liability for compensated absences for 1) leave that has not been used, and 2) leave that has been used but not yet paid in cash or settled through noncash means. A liability is recognized for leave that has not been used if a) the leave is attributable to services already rendered, b) the leave accumulates, and c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The effects of implementation can be seen in Note 6 above and Note 15 below.

**NOTE 15 - RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS**

During the year ended June 30, 2025, the District implemented GASB 101: *Compensated Absences*, as discussed in Note 14, which required the District to recognize liabilities for compensated absences and voluntary separation costs. The balances reported for the year ended June 30, 2024 have been revised for the implementation of GASB 101: *Compensated Absences*. A summary of the restatement is as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 28,898,199
Impact of Adoption of GASB 101	(754,960)
Net Position - Beginning, as Restated	\$ 28,143,239

**Custer School District No. 16-1**  
**Notes to the Financial Statements**  
**June 30, 2025**

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**NOTE 16 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**Custer School District No. 16-1**  
**Budgetary Comparison Schedule - General Fund - Budgetary Basis**  
**For the Year Ended June 30, 2025**

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance Positive (Negative)
<b>REVENUE</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 8,283,437	\$ 8,283,437	\$ 8,023,901	\$ (259,536)
Gross Receipts Taxes	341,252	341,252	353,431	12,179
Penalties and Interest on Taxes	15,000	15,000	18,014	3,014
Cocurricular Activities	32,000	32,000	42,994	10,994
Earnings on Deposits	160,000	160,000	338,664	178,664
Other Local Revenue	79,750	79,750	67,344	(12,406)
Total Revenue from Local Sources	<u>8,911,439</u>	<u>8,911,439</u>	<u>8,844,348</u>	<u>(67,091)</u>
Revenue from Intermediate Sources:				
County Sources	<u>41,560</u>	<u>41,560</u>	<u>45,252</u>	<u>3,692</u>
Revenue from State Sources:				
Unrestricted Grants-in-aid	131,611	131,611	140,843	9,232
Restricted Grants-in-aid	2,000	2,000	8,069	6,069
Total Revenue from State Sources	<u>133,611</u>	<u>133,611</u>	<u>148,912</u>	<u>15,301</u>
Revenue from Federal Sources:				
Unrestricted Grants-in-aid	779,550	779,550	778,564	(986)
Restricted Grants-in-aid	412,506	457,506	425,602	(31,904)
Total Revenue from Federal Sources	<u>1,192,056</u>	<u>1,237,056</u>	<u>1,204,166</u>	<u>(32,890)</u>
Total Revenue	<u>10,278,666</u>	<u>10,323,666</u>	<u>10,242,678</u>	<u>(80,988)</u>

See independent auditor's report and notes to the required supplementary information.

**Custer School District No. 16-1**  
**Budgetary Comparison Schedule - General Fund -**  
**Budgetary Basis (Continued)**  
**For the Year Ended June 30, 2025**

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance Positive (Negative)
<b>EXPENDITURES</b>				
Instructional Services:				
Regular Programs	5,029,062	5,042,489	5,031,653	10,836
Special Programs	273,205	289,392	251,775	37,617
Post Secondary Occupational Programs	2,000	2,000	-	2,000
Total Instructional Services	<u>5,304,267</u>	<u>5,333,881</u>	<u>5,283,428</u>	<u>50,453</u>
Support Services:				
Pupils	453,966	469,352	455,419	13,933
Instructional Staff	529,795	529,795	519,082	10,713
General Administration	762,249	762,249	820,480	(58,231)
School Administration	679,734	679,734	679,332	402
Business	2,267,973	2,267,973	2,072,239	195,734
Total Support Services	<u>4,693,717</u>	<u>4,709,103</u>	<u>4,546,552</u>	<u>162,551</u>
Cocurricular Activities:				
Male Activities	117,302	117,302	104,659	12,643
Female Activities	75,463	75,463	75,642	(179)
Transportation	178,007	178,007	209,638	(31,631)
Combined Activities	301,173	301,173	287,985	13,188
Total Cocurricular Activities	<u>671,945</u>	<u>671,945</u>	<u>677,924</u>	<u>(5,979)</u>
Other Nonprogrammed Costs:				
Voluntary Separation Payments	105,591	105,591	51,766	53,825
Total Expenditures	<u>10,775,520</u>	<u>10,820,520</u>	<u>10,559,670</u>	<u>260,850</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(496,854)</u>	<u>(496,854)</u>	<u>(316,992)</u>	<u>179,862</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer In	150,000	150,000	150,000	-
Sale of Surplus Property	3,000	3,000	15,000	12,000
Contingency	(50,000)	(50,000)	-	50,000
Total Other Financing Sources	<u>103,000</u>	<u>103,000</u>	<u>165,000</u>	<u>62,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(393,854)</u>	<u>(393,854)</u>	<u>(151,992)</u>	<u>241,862</u>
<b>FUND BALANCE - BEGINNING</b>	<u>5,288,445</u>	<u>5,288,445</u>	<u>5,288,445</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 4,894,591</u>	<u>\$ 4,894,591</u>	<u>\$ 5,136,453</u>	<u>\$ 241,862</u>

See independent auditor's report and notes to the required supplementary information.

**Custer School District No. 16-1**  
**Budgetary Comparison Schedule - Capital Outlay Fund - Budgetary Basis**  
**For the Year Ended June 30, 2025**

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance Positive (Negative)
<b>REVENUE</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 2,830,600	\$ 2,830,600	\$ 3,486,087	\$ 655,487
Penalties and Interest on Taxes	7,500	7,500	6,226	(1,274)
Earnings on Deposits	-	225,000	334,773	109,773
Other Local Revenue	139,876	139,876	277,757	137,881
Total Revenue from Local Sources	<u>2,977,976</u>	<u>3,202,976</u>	<u>4,104,843</u>	<u>901,867</u>
Revenue from State Sources:				
Unrestricted Grants-in-aid	<u>225,000</u>	<u>225,000</u>	<u>225,000</u>	<u>-</u>
Revenue from Federal Sources:				
Restricted Grants-in-aid	<u>122,999</u>	<u>262,875</u>	<u>262,802</u>	<u>(73)</u>
Total Revenue	<u>3,325,975</u>	<u>3,690,851</u>	<u>4,592,645</u>	<u>901,794</u>
<b>EXPENDITURES</b>				
Instructional Services:				
Regular Programs	934,376	1,074,252	1,050,576	23,676
Special Programs	48,000	48,000	37,623	10,377
Total Instructional Services	<u>982,376</u>	<u>1,122,252</u>	<u>1,088,199</u>	<u>34,053</u>
Support Services:				
Instructional Staff	19,600	19,600	24,704	(5,104)
Business	8,267,000	8,267,000	6,417,553	1,849,447
Total Support Services	<u>8,286,600</u>	<u>8,286,600</u>	<u>6,442,257</u>	<u>1,844,343</u>
Cocurricular Activities:				
Combined Activities	<u>158,000</u>	<u>158,000</u>	<u>110,590</u>	<u>47,410</u>
Debt Services	<u>1,805,317</u>	<u>1,805,317</u>	<u>1,802,667</u>	<u>2,650</u>
Total Expenditures	<u>11,232,293</u>	<u>11,372,169</u>	<u>9,443,713</u>	<u>1,928,456</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(7,906,318)</u>	<u>(7,681,318)</u>	<u>(4,851,068)</u>	<u>2,830,250</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer Out	(250,000)	(250,000)	(250,000)	-
Sale of Surplus Property	-	-	500	500
Premiums on Debt Issuance	225,000	-	-	-
Compensation for Loss of General Capital Assets	187,000	187,000	139,162	(47,838)
Total Other Financing Sources (Uses)	<u>162,000</u>	<u>(63,000)</u>	<u>(110,338)</u>	<u>(47,338)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(7,744,318)	(7,744,318)	(4,961,406)	2,782,912
<b>FUND BALANCE - BEGINNING</b>	<u>13,706,683</u>	<u>13,706,683</u>	<u>13,706,683</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 5,962,365</u>	<u>\$ 5,962,365</u>	<u>\$ 8,745,277</u>	<u>\$ 2,782,912</u>

See independent auditor's report and notes to the required supplementary information.

**Custer School District No. 16-1**  
**Budgetary Comparison Schedule - Special Education Fund -**  
**Budgetary Basis**  
**For the Year Ended June 30, 2025**

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
<b>REVENUE</b>				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,657,300	\$ 1,657,300	\$ 1,687,684	\$ 30,384
Penalties and Interest on Taxes	3,500	3,500	2,806	(694)
Other Local Revenue	<u>11,500</u>	<u>11,500</u>	<u>22,446</u>	<u>10,946</u>
Total Revenue from Local Sources	<u>1,672,300</u>	<u>1,672,300</u>	<u>1,712,936</u>	<u>40,636</u>
Revenue from Federal Sources:				
Restricted Grants-in-aid	<u>269,956</u>	<u>269,956</u>	<u>275,616</u>	<u>5,660</u>
Total Revenue	<u>1,942,256</u>	<u>1,942,256</u>	<u>1,988,552</u>	<u>46,296</u>
<b>EXPENDITURES</b>				
Instructional Services:				
Special Programs	<u>1,999,943</u>	<u>1,999,943</u>	<u>1,869,732</u>	<u>130,211</u>
Support Services:				
Pupils	507,199	507,199	405,317	101,882
Instructional Staff	15,000	15,000	17,280	(2,280)
Special Education	<u>292,909</u>	<u>292,909</u>	<u>289,111</u>	<u>3,798</u>
Total Support Services	<u>815,108</u>	<u>815,108</u>	<u>711,708</u>	<u>103,400</u>
Other Nonprogrammed Costs:				
Voluntary Separation Payments	<u>17,948</u>	<u>17,948</u>	<u>17,948</u>	<u>-</u>
Total Expenditures	<u>2,832,999</u>	<u>2,832,999</u>	<u>2,599,388</u>	<u>233,611</u>
<b>NET CHANGE IN FUND BALANCE</b>	(890,743)	(890,743)	(610,836)	279,907
<b>FUND BALANCE - BEGINNING</b>	<u>2,253,812</u>	<u>2,253,812</u>	<u>2,253,812</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 1,363,069</u>	<u>\$ 1,363,069</u>	<u>\$ 1,642,976</u>	<u>\$ 279,907</u>

See independent auditor's report and notes to the required supplementary information.

**Custer School District No. 16-1**  
**Schedule of the District's Proportionate Share**  
**of the Net Pension Liability (Asset)**  
**South Dakota Retirement System**

Year*	District's Proportion of Net Pension Liability/Asset	District's Proportionate Share of Net Pension Liability (Asset) (a)	District's Covered Payroll (b)	District's Proportionate Share of Net Pension Liability/Asset as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Pension as a Percentage of its Total Pension Liability/Asset
2025	0.2533960%	\$ (10,257)	\$ 7,109,008	0.14%	100.03%
2024	0.2580570%	\$ (25,188)	\$ 6,656,223	0.38%	100.07%
2023	0.2544710%	\$ (24,049)	\$ 6,060,952	0.40%	100.10%
2022	0.2426450%	\$ (1,858,245)	\$ 5,513,487	33.70%	105.52%
2021	0.2370727%	\$ (10,296)	\$ 5,203,021	0.20%	100.04%
2020	0.2377414%	\$ (25,194)	\$ 5,054,859	0.50%	100.09%
2019	0.2405361%	\$ (5,610)	\$ 5,000,497	0.11%	100.02%
2018	0.2356759%	\$ (21,388)	\$ 4,788,439	0.45%	100.10%
2017	0.2358488%	\$ 796,674	\$ 4,484,649	17.76%	96.89%
2016	0.2302137%	\$ (976,402)	\$ 4,203,034	23.23%	104.10%

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

See independent auditor's report and notes to the required supplementary information.

**Custer School District No. 16-1  
Schedule of Pension Contributions  
South Dakota Retirement System**

Year	Contractually- required Contribution (a)	Contributions in Relation to the Contractually- required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2025	\$ 449,910	\$ 449,910	\$ -	\$ 7,498,489	6.00%
2024	\$ 426,541	\$ 426,541	\$ -	\$ 7,109,008	6.00%
2023	\$ 399,383	\$ 399,383	\$ -	\$ 6,656,223	6.00%
2022	\$ 364,538	\$ 364,538	\$ -	\$ 6,060,952	6.00%
2021	\$ 330,384	\$ 330,384	\$ -	\$ 5,513,487	6.00%
2020	\$ 312,566	\$ 312,566	\$ -	\$ 5,203,021	6.00%
2019	\$ 303,292	\$ 303,292	\$ -	\$ 5,054,859	6.00%
2018	\$ 300,031	\$ 300,031	\$ -	\$ 5,000,497	6.00%
2017	\$ 287,307	\$ 287,307	\$ -	\$ 4,788,439	6.00%
2016	\$ 269,080	\$ 269,080	\$ -	\$ 4,484,649	6.00%

See independent auditor's report and notes to the required supplementary information.

**Custer School District No. 16-1**  
**Notes to the Required Supplementary Information**  
**June 30, 2025**

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**NOTE 1 - BASIS OF PRESENTATION**

The Budgetary Comparison Schedules have been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedules present capital outlay expenditures within each function while the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds present capital outlay expenditures as a separate function.

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

The District follows these procedures in establishing the budgetary data reflected in the schedules:

1. Prior to the first regular Board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in May of each year.
3. The proposed budget is published for public review no later than July 15 of each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the School Board, the operating budget is legally binding and the actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when monies are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.

See independent auditor's report.

**Custer School District No. 16-1**  
**Notes to the Required Supplementary Information**  
**June 30, 2025**

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**NOTE 3 - PENSION PLAN**

Changes from Prior Valuation

The June 30, 2024 Actuarial Valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2023 Actuarial Valuation.

The details of changes since the last valuation are as follows:

Benefit Provision Changes

During the 2024 Legislative Session, no significant SDRS benefit changes were made.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in an FVFR equal to or exceeding 100%.

As of June 30, 2023, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2024 SDRS COLA was limited to a restricted maximum of 1.91%. For the June 30, 2023 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA assumption of 1.91%.

As of June 30, 2024, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2024 SDRS COLA is limited to a restricted maximum of 1.71%. The July 2025 SDRS COLA will equal inflation, between 0% and 1.71%. For this June 30, 2024 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.71%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

See independent auditor's report.

SINGLE AUDIT INFORMATION

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*

School Board  
Custer School District No. 16-1  
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, each major fund, and the aggregate remaining fund information of Custer School District No. 16-1 (the District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 29, 2026.

#### **Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2025-001 that we considered to be a material weakness.

## **Report on Compliance and Other Matters**

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

### **Custer School District No. 16-1 Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District'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.

*Casey Peterson, LTD*

Casey Peterson, LTD

Rapid City, South Dakota

January 29, 2026

Independent Auditor's Report on Compliance for  
Each Major Federal Program and Report on Internal Control  
over Compliance in Accordance with the Uniform Guidance

School Board  
Custer School District No. 16-1  
Custer, South Dakota

**Report on Compliance for Each Major Federal Program**

*Opinion on Each Major Federal Program*

We have audited Custer School District No. 16-1's (the District) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

*Casey Peterson, LTD*

Casey Peterson, LTD

Rapid City, South Dakota

January 29, 2026

**Custer School District No. 16-1**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2025**

**SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS**

- a. The Independent Auditor's Report expressed unmodified opinions on the financial statements of Custer School District No. 16-1.
- b. 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* disclosed a material weakness in internal control over financial reporting.
- c. No instances of noncompliance material to the financial statements of the District that are required to be reported in accordance with *Governmental Auditing Standards* were noted during the audit.
- d. The Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance for the District expressed an unmodified opinion on all major programs.
- e. No material weaknesses in internal control related to major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance.
- f. There were no audit findings as required to be reported in accordance with 2 CFR Section 200.516(a).
- g. The federal awards tested as major programs were:

Assistance Listing Numbers	Name of Federal Program
84.010	Title I Grants to Local Educational Agencies
	<i>Special Education Cluster:</i>
84.027	Special Education - Grants to States (IDEA, Part B)
84.173	Special Education - Preschool Grants (IDEA, Part B, 619)

- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- i. Custer School District No. 16-1 did not qualify as a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

Material Weakness

Internal Control over Financial Reporting

Preparation of Financial Statements and Related Notes and Material Adjustments

2025-001 *Condition:* The District requests its auditor to draft the year-end financial statements and accompanying notes. In addition, material adjustments were necessary to appropriately state the financial records.

*Criteria:* Establishing internal controls over the preparation of the financial statements and drafting the financial statement is the responsibility of management. The District should have an internal control system in place related to oversight and review of the preparation of the financial statements, and to prevent, or detect and correct, material misstatements.

**Custer School District No. 16-1**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2025**

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*Cause:* The District does not have an internal control system in place to prepare the financial statements and related notes. This condition is common in an organization of this size due to the limited number of office staff.

*Effect:* The District engages its auditor to draft the financial statements and related notes to the financial statements and make material adjustments. The possibility of fraud or errors occurring and not being detected or corrected is present. In addition, material adjustments were proposed to correct taxes receivable, accounts payable, and property and equipment.

*Repeat of Prior Year Finding:* This issue has been reported as a finding since 2021.

*Auditor's Recommendation:* We recommend that management develop a system of internal control to ensure proper reporting of the financial statements and notes to the financial statements. During the year-end closing process, the District should review the accounting records and ensure appropriate activity is recorded. If management does not have the resources or expertise to prepare the financial statements, we recommend that a qualified CPA be engaged to mitigate or eliminate this control weakness.

*View of Management:* Management agrees with the finding. A response can be found in the Corrective Action Plan.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No findings to report.

# Custer School District

527 Montgomery Street  
Custer, SD 57730

Phone: (605) 673-3154  
Fax: (605) 673-5607



**Dr. Tim Frederick**  
Superintendent of Schools

**Sarah Wedge & Teri Reynolds**  
Business Managers

## SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

### FINANCIAL STATEMENTS AUDIT

Material Weakness  
Internal Control over Financial Reporting  
Segregation of Duties

2024-001 *Condition:* There is a lack of segregation of duties within the Business Office related to the oversight of the year-end reconciliation and adjustment processes and the trust and agency receipting process. The lack of segregation of duties and oversight over year-end reconciliations and adjustments resulted in material proposed entries in the following areas: accounts receivable, accounts payable, property and equipment, and the associated income statement balances.

*Criteria:* Establishing a proper system of internal controls to segregate responsibilities and provide oversight and review of processes is the responsibility of management.

*Auditor's Recommendation:* We recommend training for Business Office staff to perform additional responsibilities which will allow the Co-Business Managers to perform oversight duties such as the financial close and reconciliation processes. Similarly, the Board could be involved in the oversight process to allow for further segregation of duties.

*Current Status:* This finding was not reported in the current year.

Material Weakness  
Internal Control over Financial Reporting  
Drafting the Financial Statements and Related Notes

2024-002 *Condition:* The District requests its auditor to draft the year-end financial statements and accompanying notes.

*Criteria:* Establishing internal controls over the preparation of the financial statements and drafting the financial statement is the responsibility of management. The District should have an internal control system in place related to oversight and review of the preparation of the financial statements.

*Auditor's Recommendation:* We recommend that management develop a system of internal control to ensure proper reporting of the financial statements and notes to the financial statements. If management does not have the resources or expertise to prepare the financial statements, we recommend that a qualified CPA be engaged to mitigate or eliminate this control weakness.

*Current Status:* This finding has been reported in the current year.

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**Dr. Tim Frederick**  
Superintendent of Schools

**Sarah Wedge & Teri Reynolds**  
Business Managers

## **SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)**

### **MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No findings related to the major federal award audit were reported in the prior year.

# Custer School District

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**Dr. Tim Frederick**  
Superintendent of Schools

**Sarah Wedge & Teri Reynolds**  
Business Managers

## **CORRECTIVE ACTION PLAN (UNAUDITED)**

Custer School District No. 16-1 respectfully submits the following corrective action plan for the year ended June 30, 2025.

Name and address of independent public accounting firm:

Casey Peterson, LTD  
909 St. Joseph St., Ste 101  
Rapid City, SD 57701

The findings from the 2025 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **FINDINGS - FINANCIAL STATEMENTS AUDIT**

#### Material Weakness

##### Internal Control over Financial Reporting

2025-001 *Condition:* The District requests its auditor to draft the year-end financial statements and accompanying notes. In addition, material adjustments were necessary to appropriately state the financial records.

*Criteria:* Establishing internal controls over the preparation of the financial statements and drafting the financial statement is the responsibility of management. The District should have an internal control system in place related to oversight and review of the preparation of the financial statements. In addition, the Uniform Guidance requires the auditee to prepare appropriate financial statements in accordance with section 200.510.

*Repeat of Prior Year Finding:* Yes. This finding has been reported since 2021.

*Auditor's Recommendation:* We recommend that management develop a system of internal control to ensure proper reporting of the financial statements and notes to the financial statements. If management does not have the resources or expertise to prepare the financial statements, we recommend that a qualified CPA be engaged to mitigate or eliminate this control weakness.

*Management's Response:* This is a common condition for school districts of similar size and management feels comfortable with this practice. The District will implement suggested controls wherever cost-effective for the District. Management does provide the auditors with a trial balance and supporting schedules that are used in the preparation of the financial statements. The Business Managers and the Superintendent will monitor the implementation of the Corrective Action Plan.

# Custer School District

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Superintendent of Schools

**Sarah Wedge & Teri Reynolds**  
Business Managers

## **FINDINGS - FEDERAL AWARDS AUDIT**

No findings related to the major federal award audit were reported in the current year.

If there are questions regarding this plan, please contact Dr. Tim Frederick at (605) 673-3154.

Sincerely,

Dr. Tim Frederick, Superintendent  
Custer School District No. 16-1  
Custer, South Dakota

**Custer School District No. 16-1  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2025**

Assistance Listing	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity	Pass-through Number	Amount
<b><i>Child Nutrition Cluster:</i></b>						
<b><u>U.S. Department of Agriculture</u></b>						
Non-cash Assistance (Commodities):						
10 . 555	N	N	National School Lunch Program	S.D. Department of Education	2024G-CANS16001	\$ 15,875
Cash Assistance:						
10 . 553	N	N	School Breakfast Program (Note 3)	S.D. Department of Education	2024G-CANS16001	44,090
10 . 555	N	N	National School Lunch Program (Note 3)	S.D. Department of Education	2024G-CANS16001	123,412
10 . 555	N	N	National School Lunch Program - Supply Chain Assistance (Note 3)	S.D. Department of Education	2024G-CANS16001	15,152
10 . 582	N	N	Fresh Fruits and Vegetables Program	S.D. Department of Education	2024G-FFVP16001	43,131
<b>Total Child Nutrition Cluster</b>						<u>241,660</u>
<b><i>Forest Service Schools and Roads Cluster:</i></b>						
<b><u>U.S. Department of Agriculture</u></b>						
10 . 665	N	N	School and Roads - Grants to States (Note 3)	Custer and Pennington Counties	N/A	88,668
10 . 666	N	N	School and Roads - Grants to Counties (Note 3)	Custer and Pennington Counties	N/A	611
<b>Total Forest Service Schools and Roads Cluster</b>						<u>89,279</u>
<b>Total U.S. Department of Agriculture</b>						<u>330,939</u>
<b><i>Special Education Cluster (IDEA):</i></b>						
<b><u>U.S. Department of Education</u></b>						
84 . 027	N	Y	Special Education - Grants to States	S.D. Department of Education	2024G-GMS16001	268,365
84 . 173	N	Y	Special Education - Preschool Grants	S.D. Department of Education	2024G-GMS16001	7,251
<b>Total Special Education Cluster</b>						<u>275,616</u>
<b><i>Other Programs</i></b>						
<b><u>U.S. Department of Interior</u></b>						
15 . 227	N	N	Distribution of Receipts to State and Local Governments (Note 3)	S.D. Department of Education	N/A	15,308
<b>Total U.S. Department of Interior</b>						<u>15,308</u>

See independent auditor's report.

**Custer School District No. 16-1**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2025**

Assistance Listing	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity	Pass-through Number	Amount
<b><u>U.S. Department of Education</u></b>						
84 . 010	N	Y	Title I Grants to Local Educational Agencies	S.D. Department of Education	2024G-GMS16001	289,956
84 . 041	Y	N	Impact Aid	N/A	N/A	750,000
84 . 367	N	N	Supporting Effective Instruction	S.D. Department of Education	2024G-GMS16001	60,522
84 . 424	N	N	Student Support and Academic Enrichment Program	S.D. Department of Education	2024G-GMS16001	30,284
84 . 425V	N	N	American Rescue Plan - Emergency Assistance to Non-Public Schools	S.D. Department of Education	2024G-649	<u>226,875</u>
<b>Total U.S. Department of Education</b>						<u>1,633,253</u>
<b><u>U.S. Department of Homeland Security</u></b>						
97 . 067	N	N	Homeland Security Grant Program	S.D. Department of Public Safety	24-HLS-045	<u>35,927</u>
<b>Total U.S. Department of Homeland Security</b>						<u>35,927</u>
<b>Total Federal Financial Assistance</b>						<u>\$ 2,015,427</u>

NOTE 1: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the general purpose financial statements.

NOTE 2: The District did not elect to use the 10% de minimis indirect cost rate.

NOTE 3: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

NOTE 4: No funds were passed down to subrecipients.

See independent auditor's report.

## OTHER INFORMATION

**Custer School District No. 16-1**  
**School District Officials**  
**June 30, 2025**

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**BOARD MEMBERS**

President - Jeff Barnes  
Vice President - Travis Hartshorn  
Larry Baker  
Sara Barrick  
Heath Reindl  
Michelle Lehman  
Heather Grace

**SUPERINTENDENT**

Mark Naugle

**BUSINESS MANAGERS**

Sarah Wedge  
Teri Reynolds

See independent auditor's report.